

# NAVAL POSTGRADUATE SCHOOL

## Monterey, California



## THESIS

**A REVIEW OF SOCIAL SECURITY AND  
SUPPLEMENTAL SECURITY INCOME FROM A  
FEDERAL BUDGET PERSPECTIVE**

by

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March 2001

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INCOME FROM A FEDERAL BUDGET PERSPECTIVE**

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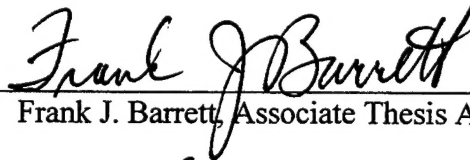


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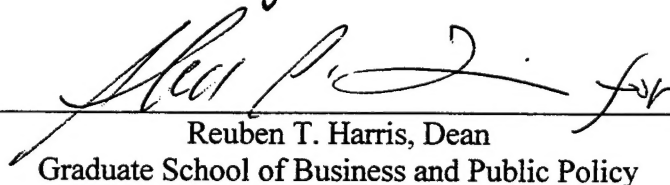
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## **ABSTRACT**

This thesis examines Supplemental Security Income (SSI) starting from its inception in 1972, and identifies and evaluates the major changes that have transformed it through its short lifetime. SSI originated in the Social Security Act of 1935, and was later enhanced by the Social Security Act Amendments of 1950. As one of the multitude of entitlement programs constituting the mandatory spending category of the federal budget, SSI plays an important role in the lives of many individuals. Of specific interest are the changes brought about by the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 and the Balanced Budget Act (BBA) of 1997.

A focused review of pertinent literature, Social Security and SSI legislation, and an analysis of the effects of welfare reform illustrate how after federalization in 1972, SSI experienced rapid growth throughout the decades of the 1980s and 1990s. In particular, SSI experienced a significant increase in growth from 1985 to 1990, which appeared to have been contained by the PRWORA of 1996. However, the BBA of 1997 allowed SSI to quickly resume its historical pattern of growth.



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## ACRONYMS

AIME	Average Indexed Monthly Earnings
BBA	Balanced Budget Act
CBO	Congressional Budget Office
CDR	Continuing Disability Review
CES	Committee on Economic Security
CFR	Code of Federal Regulations
CPI	Consumer Price Index
DBRA	Disability Benefits Reform Act
DI	Disability Insurance
EITC	Earned Income Tax Credit
FICA	Federal Insurance Contributions Act
FY	Fiscal Year
GAO	General Accounting Office
GDP	Gross Domestic Product
IFA	Individualized Functional Assessment
INA	Immigration and Nationality Act
INS	Immigration and Naturalization Service
LPR	Lawfully Admitted for Permanent Residence
OASDI	Old Age, Survivors and Disability Insurance
OASI	Old Age and Survivors Insurance
OBRA	Omnibus Budget Reconciliation Act

OMB	Office of Management and Budget
PIA	Primary Insurance Amount
PL	Public Law
PRUCOL	Permanently Residing Under Color of Law
PRWORA	Personal Responsibility and Work Opportunity Reconciliation Act
SECA	Self-Employed Contributions Act
SSA	Social Security Administration
SSI	Supplemental Security Income

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## **I. INTRODUCTION**

### **A. OBJECTIVES**

The federal budget is large and complex, and consists of three primary spending categories. These three primary categories are classified as mandatory spending, discretionary spending, and debt interest payment.

In fiscal year (FY) 1999, total federal spending (prior to allowing for offsetting receipts) totaled nearly \$1.8 trillion. Of this amount, mandatory spending, referred to as "entitlements" by the Congressional Budget Office (CBO), totaled approximately \$976.8 billion (Congressional Budget Office, 2000). Mandatory spending (excluding net interest) accounted for more than 54.8 percent of total government spending that year.

The Social Security program is the largest of the mandatory spending programs within the federal budget, and is one of the many non-means tested sources of public financial assistance. Created during the Franklin D. Roosevelt administration, Social Security has provided generations of workers, and their survivors and dependents, with retirement and disability income security. Social Security has endured many changes over the past several decades, and promises to remain a dynamic, and sometimes controversial, issue in future American politics.

As one of the lesser-known segments of mandatory spending, Supplemental Security Income (SSI) is a means-tested, federally administered, income assistance program for the needy aged, blind, and disabled. Like Social Security, SSI has been modified several times since its creation during the Nixon Administration.

Looking to the very core of the SSI program reveals that SSI actually evolved from legislation included in the Social Security Act of 1935. Since Social Security and SSI are so closely associated, this thesis will review and examine both the Social Security and SSI programs in order to further understand their interrelationship, and the magnitude of their financial effect upon the federal budget. Because it receives a far smaller share of public attention and scrutiny than does Social Security, particular attention will be given to the SSI program.

The SSI program will be closely examined starting from its inception in 1972, and will track the many changes that have transformed it through its short lifetime. Of specific interest will be the changes brought about by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, and the Balanced Budget Act of 1997.

## **B. RESEARCH QUESTIONS**

The primary research question is:

What are the major policy and budgetary changes to SSI that have taken place since the inception of the program in 1972?

Supporting questions include:

What are the origins and purpose of Social Security?

What is the benefit structure of Social Security?

What is the beneficiary mix of Social Security?

How is Social Security financed?

What is the purpose of the SSI program?

What is the benefit structure of SSI?

What is the beneficiary mix of SSI?

How is SSI financed?

### **C. SCOPE AND LIMITATIONS**

The scope of this thesis will be limited to a general and historical examination of the Social Security program, and a more detailed study of the SSI program from 1972 to 2000. It will concentrate upon the effects that reform has had upon SSI's benefit structure, eligibility requirements and financing.

The effects that these changes have had upon the federal budget, as any modification to revenues or expenditures might have, will also be addressed.

It is beyond the scope of this thesis to predict the impact that future Social Security or welfare reform might have upon either of these programs.

### **D. METHODOLOGY**

The methodology used in this thesis research will consist of the following:

1. A literature review of
  - a. federal government documents,
  - b. reports, studies and analyses (both public and private),
  - c. journal articles and books, and
  - d. executive and legislative branch activities.
2. Collection of data concerning Social Security and SSI legislation. My collection will focus upon data that explain the size, scope and financing of these programs, and how they have evolved.
3. An analysis of the effects of welfare reform on SSI from a policy and fiscal perspective.

## **E. ORGANIZATION OF STUDY**

Due to the influence that Social Security and other public assistance programs have had upon American politics, this thesis will begin with a broad review of social insurance in general. Understanding the origins and structure of Social Security, based upon the theories of social insurance, will enable the reader to better understand the workings of the SSI program. Having a familiarity of the relationship between Social Security and SSI is essential to comprehending their overall effects on public spending.

Chapter II will begin with a broad overview of social insurance, and will describe how it evolved in the United States through the years of the American Industrial Revolution and the Great Depression.

Chapter III will explain the fundamentals of the old-age and survivors portion of the Social Security program, focusing primarily upon its eligibility requirements and benefit structure. Chapter IV will describe how disability insurance was added into this program, and explain its eligibility requirements and benefit structure. Chapter V will provide an account of how these two programs, which comprise the whole of Social Security, are funded.

Chapter VI will be similar in content to the preceding three chapters, but will instead focus upon the SSI program.

The next chapter will focus upon two primary pieces of legislative reform, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, and the Balanced Budget Act of 1997. It will also include a discussion of the fiscal and policy impacts that these two landmark pieces of legislation had upon SSI.

Finally, Chapter VIII will summarize the findings of the thesis and suggest topics for further research.

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## **II. SOCIAL INSURANCE**

For several decades preceding the passage of the Social Security Act of 1935 in the United States, a worldwide movement towards protecting aging and aged workers from uncontrollable forces had been underway. This protection was founded upon the concept of "social insurance", a vehicle used by nations to provide citizens with a certain degree of social support (Berkowitz and Kingson, 1993).

### **A. UNDERSTANDING SOCIAL INSURANCE**

Social insurance was originally contrived to be preventive in nature, and was directed towards workers who were no longer productive, either for reasons of old age or disability (Dye, 1998). The purpose of social insurance was, therefore, to prevent this group of cohorts from entering into the despairs of poverty that might have resulted from their departure from the active workforce.

#### **1. The German Social Insurance Movement**

Recognizing the need in 1883 to provide sickness and maternity benefits for its industrial workers, Germany was the first nation to establish a program of social insurance. In the following year, 1884, the government added a workers' compensation program to enhance the package of benefits that it was providing. Then, in 1889, Otto von Bismarck once again expanded the program to include invalidity, old age, and death benefits (Schieber and Shoven, 1999). By 1911 the German government had improved the program once again, this time adding survivor benefits to its growing list of government assistance.

The decision by the German government to embark upon the implementation of social insurance programs can be attributed to three fundamental reasons. First, the German economy had been experiencing a swift industrialization during the closing years of the nineteenth century. Second, the writings and influences of German philosophers and economists of the period heavily prejudiced the shift towards state provided benefits. They suggested that the government take a more prominent role regarding the general welfare of its citizens. And finally, the development of organized labor was gaining popularity and support among the German workers. This third reason was of particular interest to the German government for reasons extending beyond its sovereign borders. A strong tendency towards socialism was making its way across much of Europe during this time. In order to keep the socialist movement from creeping into Germany, Bismarck opted for instituting social insurance programs to help stem the socialistic tide (Schieber and Shoven, 1999).

## **2. Changing Social and Economic Structures in the United States**

After the German experience proved successful in the late 1800s, social insurance quickly spread to other nations of the world, with one variation or another existing in over 50 countries by the early 1930s. Up to this point, though, the United States had remained out of the business of employing national social insurance programs. However, this situation would soon end.

### ***a. From Agriculture to Industry***

Throughout the nineteenth century the United States had witnessed a very slow, but very certain, change from an agricultural based economy, to one of significant

industrial might. At the beginning of the nineteenth century, Americans were predominantly engaged in rural or craft-oriented occupations. By 1880, the number of workers employed in agriculture had decreased, but still remained above the 50 percent mark. However, the new century brought a rapid transformation of the labor force; in 1910, agricultural employment had slipped to just over 31 percent, and by the mid-1930's, less than 20 percent of the available workers remained on the farm (Schieber and Shoven, 1999).

The shift from agricultural based to industrial based employment contributed largely to the redistribution of power from the aged population of workers to the younger population of workers. One of the core characteristics of the agricultural based economy was that the source of the business, namely the land, buildings and assets associated with farming, was usually passed down among family members from generation to generation. This allowed for many of the "over-65" group to maintain control of the family finances and its accumulated wealth. In many instances, transfer of title and responsibility of these assets was accompanied by a guarantee that the transferee would continue to provide income or financial support to the transferor.

However, with the increasing numbers of positions that required filling in the highly mechanized, industrial sector, the aged suddenly found themselves to be at a great disadvantage (Schieber and Shoven, 1999). The qualifications for these new types of job skills and vacancies were designed for the young and agile. This gave rise to a growing number of unemployed elderly, a group of workers who were no longer able nor had the means to provide for themselves in their later years.

The readily expanding population of the over-65 group, which had nearly doubled since the end of the U.S. Civil War, represented approximately 5.4 percent of the total population by 1930 (Schieber and Shoven, 1999). This fact did not go unnoticed by these newly established industrial firms, and in fact had first been addressed by the rail industry as early as 1870. Railroad management quickly came to realize the increasing level of risk to their passengers and inventories of rolling stock, risks associated with workers who were too old or too inept to perform their tasks to the levels required by existing standards. In order to reduce this risk, railroad management reassigned these workers to jobs that were less physically demanding, or were mundane or administrative in nature (Schieber and Shoven, 1999).

This practice of reassigning personnel, however, led to another issue that presented itself near the end of the nineteenth century. When the supply of elderly workers had finally grown in size to where it began to outnumber the positions available, a new method of dealing with the aged segment of the railroad workforce was needed. The rail industry then created and enacted the use of a "retirement pension" in order to remove these individuals from their human resource pool.

The role of the federal government involving social welfare activities had been limited primarily to the awarding of land grants until the end of the 1920s. Individual states had traditionally provided financial relief to workers who were injured on the job through state facilitated worker's compensation programs. The successes of these programs, reinforced by the economic prosperity of the 1920s, meant that further

involvement by the federal government was not necessary. This arrangement, as history would show, became obsolete almost overnight as the roaring twenties came to an end.

**b.     *The Great Depression***

Economic misfortune was not an unfamiliar occurrence to the American economy, but it had never resulted in more than a little discomfort to a relatively small proportion of society. That all changed with the stock market crash of 1929, which triggered the onset of a depression lasting for the better part of the next decade. The order of magnitude of financial and economic distress caused by these two related events had never before been witnessed. By 1931, the price per bushel of wheat that a farmer could demand from the market had dropped by 66 percent; cotton suffered a drop of almost 75 percent. In addition, the Dust Bowl that swept across the Great Plains, and the boll weevil in the South, further devastated potential earnings for the growers of these crops (Schieber and Shoven, 1999).

The banking and savings and loan industries suffered enormous losses between 1930 and 1931 when 3,643 banks with deposits exceeding \$2.5 billion ceased operations. Deposits involved in those two years of bank failures alone "exceeded by more than \$200 million the deposits of all banks that had failed in the preceding 29 years" (Schieber and Shoven, 1999, pg. 21). Another estimate puts the number of bank failures for the years 1929 to 1933 at roughly 5,000 (Berkowitz and Kingson, 1993). Between the years 1921 and 1932 the savings and loan industry saw 468 of its institutions close their doors, recording losses in excess of \$30.3 million (Schieber and Shoven, 1999).

The market value of all stocks listed on the New York Stock Exchange declined approximately 83 percent in a 34-month period from 1929 to 1932, while bonds dropped more than 25 percent from the end of August 1930 to the end of May 1932 (Schieber and Shoven, 1999). Over the period of 1929 to 1933, the United States "gross national product (the sum of all the goods and services produced) fell more than 30 percent" (Berkowitz and Kingson, 1993, pg. 29).

The overall rate of unemployed workers hit an all-time high of 25.2 percent in 1932, which included roughly 38 percent of the non-farm workforce. Hit especially hard during the depression was the group of workers over the age of 65, who experienced a 54 percent unemployment rate by 1930, with another 25 percent of their colleagues laid-off without pay (Schieber and Shoven, 1999). It has been estimated that more than 15 million people were left without a paying job during these fateful years (Berkowitz and Kingson, 1993).

Combining the effects of this economic distress resulted in workers losing most, if not all, of any savings that they had accumulated during their working years. Those fortunate few who had been previously covered through an employer pension program also found themselves unexpectedly without; the financial security they had been looking forward to in their later years was suddenly gone, obliterated by almost 90 thousand business failures (Berkowitz and Kingson, 1993).

*c. Political Environment of the 1930s*

Given the direction that the economy was heading, and had been taking for the past several years, people inside as well as outside the United States were

beginning to wonder if the end of capitalism was near. Support for a socialist or communist restructuring of government and the economy became more widespread, especially since socialism had been spreading throughout various regions of the world.

During the 1932 presidential campaign, Franklin D. Roosevelt built his campaign platform on the promise of a "New Deal" for America. The New Deal was the concept that "the political and practical forces of the community should and could be directed to making life better for ordinary people" (Schieber and Shoven, 1999, pg. 22). Roosevelt believed that the New Deal would be the country's solution for economic recovery; however, it had to compete against two major contenders.

Francis E. Townsend, a retired California doctor, proposed the first contender, known as the "Townsend Plan". He suggested that every unemployed person over the age of 60, barring felons, should receive a monthly remuneration in the amount of \$200. The only condition attached to this compensation required the beneficiary to spend the full amount within thirty days of receipt.

This plan would accomplish two concurrent objectives; first, it would provide a certain level of financial constancy to the unemployed elderly. In addition, the scheduled flow of funds into the hands of this group of cohorts would affect an increase in demand for consumable goods and services. The expected increase in demand would stimulate production, which in turn would require a significant decrease in the level of unemployment.

A 1934 estimate of the total cost of this extremely liberal plan was very close to \$24 billion. As an example of its generosity, this amount, adjusted to 1998

dollars, would have been equivalent to a benefit of approximately \$3,900 per month. By comparison, the average monthly benefit to Social Security recipients in 1998 was just a little over \$800 per month (Schieber and Shoven, 1999). The \$24 billion estimation was computed using a beneficiary base of ten million recipients, and was to be financed by a 2 percent tax levied upon all transactions. To put the cost of this program into perspective, it would represent almost 40 percent of the total domestic output of the United States for that year (Schieber and Shoven, 1999).

The second proposal for social and economic reform that was contending for acceptance came from a Louisiana senator named Huey Long, who was also a candidate for the presidency in 1932. Known among his constituents for having used "strong-arm" tactics in order to promote his own personal interests, Long was gaining national popularity with his "chicken in every pot" and "soak the rich" campaign slogans (Schieber and Shoven, 1999).

Less sophisticated than the Townsend Plan, Senator Long's proposal included "a college education for everyone, a homestead worth \$5,000 for every family, veteran's bonuses, and old-age pensions for anyone over 60 with less than \$10,000 in cash" (Schieber and Shoven, 1999, pg. 25). The means for financing this seemingly magnanimous plan was a hefty tax levied upon millionaires, who in Long's opinion were responsible for the depressed state of the economy.

Confronted with these extremely popular plans, Roosevelt was completely aware of the political consequences of benevolent solutions. On the one hand, he knew that to dismiss entirely any options for bringing an end to the depression was politically

impossible. On the other hand, however, Roosevelt considered both the Townsend Plan and Senator Long's proposal to be cost prohibitive.

In addition, the financing schemes involved in the two proposals would place a substantial financial burden upon future administrations and generations of workers, something that Roosevelt did not care to do. However, given the economic environment, he concluded that some sort of old-age retirement benefit would have to be included as part of his New Deal package. Considering all of these issues, President Roosevelt "set in motion the process for developing a legislative proposal that culminated in the passage of the Social Security Act" (Schieber and Shoven, 1999, pg. 25).

## **B. EVOLUTION OF THE SOCIAL SECURITY ACT OF 1935**

By the summer of 1934, President Roosevelt felt that the time had come for public programs that would help protect workers against some of the misfortunes of life, especially those associated with old-age and unemployment.

### **1. The Committee on Economic Security**

President Roosevelt issued Executive Order No. 6757 on June 29, 1934, establishing the Committee on Economic Security (CES) and the Advisory Council on Economic Security. The CES, composed of cabinet members and advisers, was initially commissioned to study the economic problems and provide recommendations to be considered by the administration and Congress.

The committee was tasked to design a two part federal program that would provide for the general welfare of the population. Part one would provide old-age insurance for retired industry and commerce workers based upon fundamental insurance

principles, meaning that it would need to be contributory and self-financed. Part two would consist of a means to enable the States to improve their existing public assistance programs for the needy aged and blind.

Labor Secretary Frances Perkins, a social insurance expert, was chosen by President Roosevelt to chair the committee. The staff that Perkins chose to support her committee specialized in social insurance, unemployment compensation, and old-age security. The appointees came from all walks of life, and were employed by government, industry, and academia. Secretary Perkins specifically avoided selecting members who specialized in welfare or public relief, as the intentions of the committee did not include recommending programs of this sort.

As the committee progressed in its work, a major obstacle regarding initial implementation of an old-age insurance program (i.e., retirement) proved to be especially challenging. As requested by President Roosevelt, any compulsory retirement program that might eventually be passed into law needed to be both contributory and self-financed. It would be contributory in the sense that workers would contribute into the program during their working years, and would then receive a benefit once retired. In addition, the retirement program would need to be financed by means other than from government payments out of the general funds of the United States treasury.

There already existed in 1935 a substantially large base of aged, needy, retirement age workers who would be unable to get by without financial assistance. The proponents of old-age social insurance viewed the problems associated with the inadequacy of modern day income security for the aged to have been caused by recent industrialization

and economic organization, not as the fault of personal failure. Therefore, they argued that this group of individuals could not benefit from a contributory plan because they were already out of the workforce, and in some cases, had been for several years. As a solution, the CES identified the following requisites:

An initial delay of five years between the first year of contributions into the system (from a payroll tax borne equally by employers and employees) and the first payment of regular monthly benefits, a system of gradually rising tax rates, which would handle the problem of long-range costs, and an eventual subsidy from general revenues, which would allow those already old to receive pensions that were partially "unearned" but not "free" as in welfare programs. It would also reduce the size of the required reserve (Berkowitz and Kingson, 1993, pg. 34).

The payroll tax that was to finance the program would begin collecting taxes from employers and employees in 1937. By delaying the payment of benefits until 1942, the government could build an accumulated "fund" of monies. With continued contributions into this fund, via the payroll tax, future beneficiaries were essentially guaranteed a perpetual benefit from a program that would financially support itself.

As described above, part two of the program would require the States to improve their existing public assistance programs for the needy aged and blind. In order for this to occur, the Social Security Act provided federal grants to the States, to be paid out of the government's general funds account. These State grants would then be used to pay benefits to this first group of "non-contributing" retirees.

Therefore, by design, the retirement portion of Social Security would operate entirely as a contributory program. In other words, future benefits would be "earned" because they would be paid out of the payroll tax funds in proportion to amounts that workers had contributed during their working years.

## **2. Passing the Economic Security Act Into Law**

President Roosevelt transmitted the CES report to both chambers of Congress on January 17, 1935, along with his recommendations for legislation concerning economic security.

In the House of Representatives, the House Ways and Means Committee took the President's submission and redrafted the entire legislation. The committee also changed its name from the Economic Security Act to the Social Security Act, and reported out the bill on April 5. The full House then began consideration on April 11, where members debated and killed approximately 50 amendments offered by various individuals. The bill was finally agreed upon as the Social Security Act on April 19, 1935, and was passed in the House "by a vote of 371 to 33" (Schieber and Shoven, 1999, pg. 38).

Meanwhile, in the Senate, the Senate Finance Committee proposed the Clark amendment, initially drafted by Senator Bennett Clark from Missouri. This amendment would allow for employers already providing a pension program to their employees to opt out of participating in the old-age insurance program. This amendment, however, met with strong resistance from President Roosevelt and other supporters of the program. Their main concern was that the employers of higher paid employees would be among the group choosing not to participate in the program, leaving the government alone with the responsibility of insuring the lower wage-earning workers. This measure would clearly negate the redistributive characteristics of benefits and contributions, and would not distribute the related risks evenly among members of the workforce. The Finance Committee reported out its version of the bill on May 20, but did not include the Clark

amendment. On June 19, while on the floor of the Senate, the Clark amendment was adopted by a vote of 51 to 32. The Senate passed the full bill on the same day, 77 to 6 (Schieber and Shoven, 1999).

The conference committee that was established to combine the House and Senate versions of the bill into a final product was unable to redraft the Clark amendment in a way that would be acceptable to both chambers. As a result, it dropped the Clark amendment entirely, but added the understanding that a joint committee would be convened during the next session of Congress to resolve the issue. The House adopted the conference committee version on August 8, to be followed by the Senate the very next day. President Franklin D. Roosevelt signed the Social Security Act into law on August 14, 1935.

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### **III. OLD-AGE AND SURVIVORS INSURANCE**

Modern day Social Security is comprised of two primary programs, Old-Age and Survivors Insurance (OASI), and Disability Insurance (DI). These two programs together are known as the present day Social Security system, also referred to as Old-Age, Survivors and Disability Insurance (OASDI). This chapter will focus upon the OASI portion of Social Security, while the following chapter will be dedicated to DI.

#### **A. THE SOCIAL SECURITY BENEFIT STRUCTURE**

Social Security, as retirement income, is classified as a "defined-benefit" plan. This means that upon reaching a certain age of eligibility, usually 65, a qualified retired worker receives a regularly scheduled (monthly or bi-monthly) amount for the remaining years of his or her life (8<sup>th</sup> Quadrennial Review of Military Compensation, 1997). The amount received is computed using a predetermined formula, the worker's average earnings while employed, and the number of years worked in plan-covered employment. In addition, many defined-benefit retirement plans are accompanied by ancillary benefits, which are paid to disabled workers or their surviving spouse. These benefits provide more than just retirement income to retirees.

##### **1. Computing the Benefit Amount**

Upon attaining the age of 65, a worker who has earned the required number of "credits" is entitled to receive a full monthly Social Security benefit payment. This benefit is based upon the total amount of earnings a worker earned over the course of his or her working years. A maximum of four credits are awarded for each year worked in Social Security covered employment. Currently, the minimum number of credits

required to qualify for retirement benefits depends on a worker's year of birth (see Table 1).

The benefit calculation process currently used to compute monthly benefits has been in place since 1977, and is automatically adjusted to compensate for inflation. These benefits are then paid out of the United States treasury, with an accompanying bookkeeping entry made to the appropriate trust fund.

<u>Year of Birth</u>	<u>Number of Credits</u>
1929 and later	40
1928 and earlier	Decreases by 1 credit per year

Table 1. Number of Credits Required for OASI Retirement Benefits  
After: Social Security Administration, Benefit Information Publications, February 2000

**a. *Determining The Age of Eligibility***

The normal retirement age (NRA) is the age at which full retirement benefits are payable. Full benefits means benefits are equal to the primary insurance amount (discussed below), rounded down to the next lower dollar. Table 2 shows how NRA varies by year of birth.

Benefits can be significantly higher or lower than the primary insurance amount, depending on a worker's age at retirement. For example, a worker can retire as early as age 62, but his or her benefit will be permanently reduced by a certain percentage for each month that the age at retirement is less than the NRA (Social Security Administration, Office of the Chief Actuary, April 2000).

<u>Year of Birth</u>	<u>Normal retirement Age (NRA)</u>
1937 and prior	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Table 2. Normal Retirement Age for Social Security  
After: Social Security Administration, Office of the Chief Actuary, April 2000

***b. Average Indexed Monthly Earnings***

After the age of eligibility has been determined, computing a worker's average indexed monthly earnings (AIME) is the first step in the process of calculating a monthly benefit amount. All of the earnings on which a worker paid payroll tax, for each of the years starting in 1951 until the year he or she reached the age of 60, are indexed to account for wage growth and inflation using an indexing factor. Wages that were earned after the age of 60 are not subjected to this indexing procedure.

The next step in the process is to select the earnings representing the worker's highest 35 years of his or her work life. These 35 years of earnings are then

totaled and divided by 420 (the number of months in 35 years), yielding the AIME (Bakija and Steuerle, 1994).

To demonstrate how the AIME is computed, Table 3 displays the earnings history of a hypothetical “average” wage earner for the years 1960-1999. This worker is assumed to have attained the age of 62 in the year 2000. Currently, age 62 is the earliest age that a worker can qualify for OASI benefits. Because the AIME calculation uses only the best 35 years of a workers earnings history, the years 1960 to 1964 in this example are not used. The annual earnings for the years 1965 to 1999 total to \$1,011,588; dividing by 420 results in an AIME of \$2,408 for this hypothetical worker.

*c. Primary Insurance Amount*

The basic monthly Social Security benefit is called the primary insurance amount (PIA). Typically, the PIA is a function of the previously computed AIME. The PIA is computed by applying a benefit formula, which changes annually, to the AIME. The formula used depends on the year that a person retires.

Continuing with the example of the hypothetical worker who becomes eligible for early retirement (age 62) in 2000, the PIA formula appears in Table 4, together with its application to the AIME. The PIA for the hypothetical worker works out to be a \$1078.50 monthly benefit.

<u>YEAR</u>	<u>INDEXING FACTOR</u>	<u>ANNUAL EARNINGS</u>	<u>YEAR</u>	<u>INDEXING FACTOR</u>	<u>ANNUAL EARNINGS</u>
1960	7.20254	\$28,861	1980	2.30643	\$28,861
1961	7.06218	\$28,861	1981	2.09549	\$28,861
1962	6.72541	\$28,861	1982	1.98615	\$28,861
1963	6.56443	\$28,861	1983	1.89389	\$28,861
1964	6.30669	\$28,861	1984	1.78874	\$28,861
1965	6.19514	\$28,861	1985	1.71564	\$28,861
1966	5.84434	\$28,861	1986	1.66619	\$28,861
1967	5.53597	\$28,861	1987	1.56630	\$28,861
1968	5.17995	\$28,861	1988	1.49278	\$28,861
1969	4.89695	\$28,861	1989	1.43592	\$28,861
1970	4.66543	\$28,861	1990	1.37253	\$28,861
1971	4.44222	\$28,861	1991	1.32322	\$28,861
1972	4.04573	\$28,861	1992	1.25838	\$28,861
1973	3.80750	\$28,861	1993	1.24765	\$28,861
1974	3.59386	\$28,861	1994	1.21504	\$28,861
1975	3.34396	\$28,861	1995	1.16821	\$28,861
1976	3.12811	\$28,861	1996	1.11374	\$28,861
1977	2.95124	\$28,861	1997	1.05234	\$28,861
1978	2.73412	\$28,861	1998	1.00000	\$28,861
1979	2.51418	\$28,861	1999	1.00000	\$30,299
<b>HI-35 TOTAL</b>			<b>\$1,011,588</b>		
<b>AIME</b>			<b>\$2,408</b>		

Table 3. Indexed Earnings for Hypothetical Worker Age 62 in 2000  
After: Social Security Administration, Office of the Chief Actuary, April 2000

<u>PIA Formula</u>	<u>\$2,408 AIME</u>
90 percent of the first \$531 of AIME	\$477.90
32 percent of AIME over \$531 and through \$3,202	600.64
15 percent of AIME over \$3,202	0.00
<b>PIA</b>	<b>\$1,078.50</b>

Table 4. Primary Insurance Amount  
After: Social Security Administration, Office of the Chief Actuary, April 2000

*d. Adjustments for Early and Delayed Retirement*

Through 2000, 62 is the earliest age at which an individual can qualify for a Social Security retirement benefit. Under early retirement, however, a retiree's monthly benefit is computed using an adjusted PIA, and remains at that amount for the remainder of his or her retired life.

In the case of early retirement, a benefit is reduced 5/9 of 1 percent for each month before NRA, up to 36 months. If the number of months exceeds 36, then the benefit is further reduced 5/12 of 1 percent per month. For example, if your NRA is exactly age 66, and if you retire at exactly age 62, there are a total of 48 months of reduction. The reduction for the first 36 months is 5/9 of 36 percent, or 20 percent. The reduction for the remaining 12 months is 5/12 of 12 percent, or 5 percent. In this example, the total benefit reduction is 25 percent (Social Security Administration, Office of the Chief Actuary, 2000).

On the other hand, if a worker decides to delay retirement beyond the age of 65, a delayed retirement credit is given for each year up until the age of 69, thereby increasing a retiree's benefits. Table 5 illustrates the percentage of credit given for each year that benefits are delayed.

<b>DELAYED RETIREMENT CREDIT</b>	
<u>Year of Birth</u>	<u>Credit per Year</u>
1924	3.0%
1925-1926	3.5%
1927-1928	4.0%
1929-1930	4.5%
1931-1932	5.0%
1933-1934	5.5%
1935-1936	6.0%
1937-1938	6.5%
1939-1940	7.0%
1941-1942	7.5%
1943 and Later	8.0%

Table 5. Delayed Retirement Credit  
After: Social Security Administration, Office of the Chief Actuary, April 2000

For example, if a worker born in 1940 retires at age 68, it can be determined that his or her NRA is 65 and six months from Table 2, above. From Table 5, also above, the allowable credit for a worker born in either 1939 or 1940 is 7 percent per year. The difference between the worker's actual retirement age and NRA is two and one half years (68 minus 65.5). Therefore, the benefit would be 7 percent times 2.5, or 17.5

percent, higher than the normal primary insurance amount if he or she had not elected to delay retirement (Social Security Administration, Office of the Chief Actuary, 2000).

*e. Comparison of Early Retirement vs. Normal Retirement*

In order to illustrate the effects of retiring early, Table 6 compares the computed benefits for a worker who opts for early retirement to those of a worker who waits until age 65 to retire. Assumptions associated with these computations are that the benefits for the age 62 worker are computed using age 62 and one month, and the benefits for the age 65 worker are computed using age 65 and zero months. The younger worker's benefit results in a reduced PIA, while the older workers benefit is equal to the PIA rounded down to the next lower dollar (Social Security Administration, Office of the Chief Actuary, 2000).

**2. Spousal and Survivor Benefits**

Benefits for spouses or surviving dependents of an insured worker were not included in the original 1935 Social Security Act legislation, but were later added in the 1939 amendments. Although the rules that apply to these benefits are the same for both men and women, the vast majority of them are paid to retired wives and widows (Bakija and Steuerle, 1994).

The spouse of an insured worker becomes eligible, at the age of 65, to receive a "spousal benefit" that is equal to 50 percent of the retired, living worker's PIA. In the event that the spouse also has qualified earnings upon which he or she is eligible to receive a benefit, then the higher of these two amounts is paid.

	Retirement at age 62			Retirement at age 65		
<u>Year Retired</u>	<u>AIME</u>	<u>PIA</u>	<u>Monthly Benefit</u>	<u>AIME</u>	<u>PIA</u>	<u>Monthly Benefit</u>
1987	\$2,205	\$827.70	\$666	\$2,009	\$789.20	\$789
1988	2,311	858.40	691	2,139	838.60	838
1989	2,490	917.60	739	2,287	899.60	899
1990	2,648	968.30	780	2,417	975.00	975
1991	2,792	1,012.50	815	2,531	1,022.90	1,022
1992	2,978	1,067.70	860	2,716	1,088.70	1,088
1993	3,154	1,117.00	899	2,878	1,128.80	1,128
1994	3,384	1,185.00	954	3,024	1,147.50	1,147
1995	3,493	1,207.40	972	3,219	1,199.10	1,199
1996	3,657	1,249.90	1,006	3,402	1,248.90	1,248
1997	3,877	1,311.40	1,056	3,634	1,326.60	1,326
1998	4,144	1,387.00	1,117	3,750	1,342.80	1,342
1999	4,463	1,479.60	1,191	3,926	1,373.10	1,373
2000	4,775	1,568.50	1,248	4,161	1,433.90	1,433

Table 6. Worker With Steady Earnings at Maximum Level Since Age 22  
After: Social Security Administration, Office of the Chief Actuary, April 2000

In the case of an insured worker's death, the surviving spouse is entitled to 100 percent of the deceased worker's PIA, upon reaching the age of 65. Should the surviving spouse's own PIA exceed that of the deceased, the amount received is based upon his or her own PIA (Berkowitz and Kingson, 1993).

Dependent children under the age of 18 qualify for benefits amounting to 75 percent of a deceased parent's PIA.

A widowed spouse of any age may receive a survivors benefit equal to 75 percent of the PIA if caring for an eligible child under 16. If the surviving spouse has employment earnings, his or her benefits are

subject to an earnings test. In the event of remarriage before age 60, the spouse's survivor benefit will usually be terminated. In both cases, surviving children generally will still be eligible for full benefits. A divorced spouse who was married for at least ten years is also eligible for full spousal and survivors benefits during retirement, in the same way as a non-divorced spouse (Bakija and Steuerle, 1994, pg. 81).

Table 7 provides current data on the numbers of workers insured by OASI. Table 8 provides the number of workers receiving OASI benefits.

Workers Fully Insured for Retirement and/or Survivor Benefits (in millions)					
<u>Year</u>	<u>Permanently Insured</u>	<u>Year</u>	<u>Permanently Insured</u>	<u>Year</u>	<u>Permanently Insured</u>
1940	1.1	1960	47.6	1980	85.3
1941	1.4	1961	53.3	1981	88.0
1942	1.8	1962	54.9	1982	90.7
1943	2.3	1963	56.6	1983	94.0
1944	2.8	1964	58.3	1984	96.9
1945	3.4	1965	60.2	1985	100.1
1946	8.6	1966	61.9	1986	103.3
1947	11.6	1967	63.3	1987	107.4
1948	13.2	1968	64.5	1988	110.7
1949	14.9	1969	65.7	1989	113.6
1950	21.0	1970	66.9	1990	116.4
1951	22.9	1971	68.7	1991	118.8
1952	25.6	1972	70.1	1992	121.1
1953	27.7	1973	71.3	1993	123.6
1954	29.9	1974	72.7	1994	125.9
1955	32.5	1975	74.4	1995	128.3
1956	36.1	1976	76.1	1996	130.8
1957	38.3	1977	78.1	1997	133.7
1958	40.3	1978	80.3	1998	136.0
1959	42.2	1979	83.0	1999	138.4
				2000	140.6

Table 7. Estimated Number of OASI Insured Workers on December 31, 1940-2000  
After: Social Security Administration, Office of the Chief Actuary, April 2000

Old-Age and Survivors Insurance (OASI) Beneficiaries			
<u>Year</u>	<u>Retired Workers and Dependents</u>	<u>Survivors</u>	<u>Total</u>
1970	16,566,674	6,468,621	23,035,295
1971	17,188,035	6,699,531	23,887,566
1972	17,870,175	6,933,998	24,804,173
1973	18,793,039	7,159,932	25,952,971
1974	19,409,560	7,254,228	26,663,788
1975	20,140,731	7,368,439	27,509,170
1976	20,715,021	7,496,649	28,211,670
1977	21,476,517	7,592,375	29,068,892
1978	22,006,468	7,577,983	29,584,451
1979	22,617,898	7,617,842	30,235,740
1980	23,243,078	7,600,836	30,843,914
1981	23,859,047	7,614,727	31,473,774
1982	24,362,481	7,441,849	31,804,330
1983	24,971,472	7,249,574	32,221,046
1984	25,435,753	7,181,017	32,616,770
1985	25,958,585	7,160,944	33,119,529
1986	26,524,806	7,165,349	33,690,155
1987	26,970,080	7,156,381	34,126,461
1988	27,375,814	7,162,789	34,538,603
1989	27,842,330	7,169,923	35,012,253
1990	28,361,385	7,197,326	35,558,711
1991	28,818,483	7,255,351	36,073,834
1992	29,301,178	7,312,632	36,613,810
1993	29,635,117	7,354,579	36,989,696
1994	29,914,265	7,384,066	37,298,331
1995	30,140,418	7,388,158	37,528,576
1996	30,310,865	7,353,284	37,664,149
1997	30,637,863	7,179,790	37,817,653
1998	30,813,491	7,097,445	37,910,936
1999	31,027,701	7,044,050	38,071,751

Table 8. Number of Beneficiaries Receiving OASI Benefits on December 31,  
1970-1999  
After: Social Security Administration, Office of the Chief Actuary, April 2000

#### **IV. SOCIAL SECURITY DISABILITY INSURANCE**

Social Security Disability Insurance (DI), as we know it today, was not available as a federally administered public program until the mid-1950s. It took almost two decades of debate and recommendations before developing into the form that presently benefits so many American workers and their families.

##### **A. THE EVOLUTION OF DISABILITY INSURANCE**

While conducting its initial research, The Committee on Economic Security (CES) was aware of the potential problems associated with lost wages during periods of disability. However, the committee did not give serious consideration to the subject of permanent and total disability while drafting the original Social Security Act of 1935.

##### **1. A Time for Consideration**

With the ink barely dry on the paper, calls for change to the legislation became numerous and frequent. In a 1938 report of the Advisory Council on Social Security to the Senate Committee on Finance, the need to provide benefits to disabled workers and their families was recognized. In that same year, while preparing the Annual Report of the Social Security Board to the President, board members also gave considerable thought to the possibility of providing benefits to workers who became disabled prior to turning 65, and to their families (Social Security Administration, Reports and Studies: Legislative History of the Disability Program 1935-1974, 2000).

The 1939 Report to the President on National Health (by the Interdepartmental Committee to Coordinate Health and Welfare Activities) included results of a survey of

the difficulties faced by disabled persons. The committee concluded that workers, and their dependents, needed protection against the calamities of disability.

The Social Security Act Amendments of 1939, however, did not include any provisions on disability (Social Security Administration, Reports and Studies: Legislative History of the Disability Program 1935-1974, 2000). The Committee reports that accompanied the 1939 bill prior to passage did not mention disability either. Some of the reasons given for exclusion were that the members of the various boards and committees making the suggestions could not reach consensus on issues regarding methods of funding, or disability determination. In addition, the unpredictable behavior of costs made it difficult to estimate the amounts needed to fund such a program.

Throughout the period of 1940 to 1950 the Social Security Board, in its annual reports, repeatedly recommended a plan to pay social insurance benefits to permanently and totally disabled persons. Congressional committees also made recommendations to the same effect. However, the Social Security Act Amendments of 1946 excluded any provisions for disability insurance (Social Security Administration, Reports and Studies: Legislative History of the Disability Program 1935-1974, 2000).

## **B. THE ENACTMENT OF DISABILITY INSURANCE**

The Social Security Act was amended several times during the 1950s, each time getting a little closer to creating disability insurance.

### **1. The 1950 Amendments**

The Social Security Act Amendments of 1950 were a narrow miss for disability insurance advocates. While in the House of Representatives, the Committee on Ways

and Means included in its version of the bill, H.R. 6000, a provision for the payment of disability benefits. These benefits would be paid to permanently and totally disabled persons, and would come under Title II of the Social Security Act. In support of its recommendation, the committee reasoned that the pending program would be conservative, applying only "to those wage earners and self-employed persons who have been regular and recent members of the labor force and who can no longer continue gainful work" (Social Security Administration, Reports and Studies: Legislative History of the Disability Program 1935-1974, 2000, pg. 109).

Upon reaching the Senate, the disability provision was deleted from the bill. The Senate Committee on Finance explained that the House version of the bill, although making a provision for disability payments, failed to incorporate a plan for funding a permanent and total disability insurance program. Furthermore, it did not identify a method for making full use of existing rehabilitation facilities designed to assist disabled persons to return to work (Social Security Administration, Reports and Studies: Legislative History of the Disability Program 1935-1974, 2000).

The conference committee agreed with the Senate, and excluded disability benefits from its final draft of the bill. The legislation did, however, enhance the "State-Federal public assistance programs to the permanently and totally disabled by providing grants-in-aid to the States for such individuals who are in need..." (Social Security Administration, Reports and Studies: Legislative History of the Disability Program 1935-1974, 2000, pp. 190-110). These grants from the federal government paid one-half of the costs of the State programs.

## **2. The 1954 Amendments**

The Social Security Act Amendments of 1954 initiated a disability insurance program that provided workers additional coverage against economic insecurity. This coverage essentially protected a worker by “freezing” his or her existing Social Security record. While this measure offered no cash benefits, it protected a worker’s period of disability from reducing or wiping out any retirement and survivor benefits already earned.

## **3. The 1956 Amendments**

The Social Security Act Amendments of 1956 originated in the House of Representatives as Committee on Ways and Means bill H.R. 7225, and was passed on July 18, 1955, by a vote of 372 to 31 (CRS Report for Congress 86-193 EPW, 1986). The provisions relating to disabled workers allowed for benefits to be paid to individuals between the ages of 50 and 64, as well as disabled dependent children of a retired or deceased worker.

While acting upon the House version of the bill, the Senate Committee on Finance added to it an amendment to set up a separate trust fund for the purpose of paying disability insurance benefits. This trust fund was to be held separate from other trust funds, and was to be financed through employee and employer contributions (taxes). The rate of contribution was set at one-half of 1 percent of total earnings, evenly divided between employee and employer. In the case of self-employed persons, the rate would be three-eighths of 1 percent of total earnings (Social Security Administration, Reports and Studies: Legislative History of the Disability Program 1935-1974, 2000).

In conference, the House-recommended disability insurance benefits and the Senate-recommended trust funds were written into the committee's final version of the Social Security Act Amendments of 1956. This version passed the House on July 26, the Senate on July 27, and was signed as (PL) 880 by President Eisenhower on August 1, 1956 (CRS Report for Congress 86-193 EPW, 1986). Finally, in September 1960, President Eisenhower signed a law amending the disability rules to permit payment of benefits to disabled workers of any age and to their dependents (Social Security Administration, History Page: Brief History, 2000).

### **C. DISABILITY INSURANCE ELIGIBILITY AND BENEFIT STRUCTURE**

#### **1. Determining Disability Eligibility**

The DI program is similar in nature to the OASI program, but has a few distinguishing characteristics. To qualify for disability benefits, a worker must be incapable of performing "substantial gainful activity," defined as a job for which he or she earns less than \$500 per month (Bakija and Steuerle, 1994). As in the case of OASI benefits, a worker must have earned the required number of credits to be eligible for a DI benefit (see Table 9).

<b>Disabled Workers Born After 1929</b>	
<b><u>Become Disabled at Age</u></b>	<b><u>Number of Credits</u></b>
Less than 24	6 credits earned in the three-year period ending when disability starts
24 through 31	Credit for having worked half the time between age 21 and the time disability starts
31 through 42	20
44	22
46	24
48	26
50	28
52	30
54	32
56	34
58	36
60	38
62 or older	40

Table 9. Number of Credits Required for DI Benefits  
 After: Social Security Administration, Benefit Information Publications, February 2000

## 2. Computing the Benefit Amount

Once approved, the amount of the disability benefit received is equivalent to 100 percent of the worker's PIA, but uses an AIME calculated on fewer years than the OASI calculated AIME. Disability benefits are also delayed, commencing at the end of a five-month waiting period that starts at the onset of disability.

For disabled workers who have dependent children under the age of 16, the monthly benefit rises to 150 percent of PIA. “When disabled workers reach the Normal Retirement Age or die, they and their dependents or survivors switch over to OASI benefits” (Bakija and Steuerle, 1994, pg. 85).

The average monthly DI benefit for April 2000 was \$754.88, as shown in Figure 1.

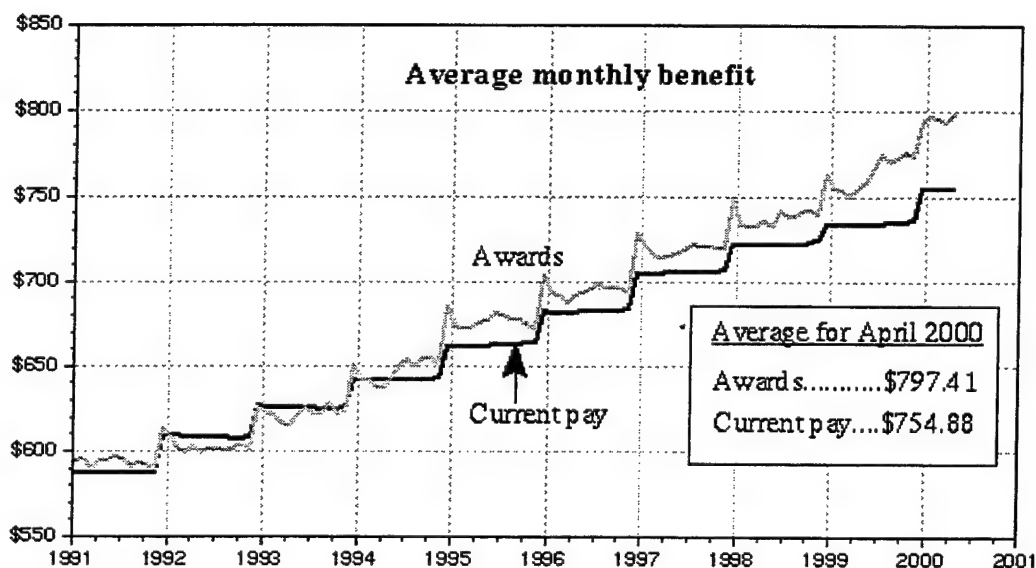


Figure 1. Average Monthly DI Benefit  
From: Social Security Administration, Office of the Chief Actuary, April 2000

Table 10 provides data on the numbers of workers insured by DI. Table 11 provides the number of workers receiving DI benefits.

Workers Insured in Event of Disability (in millions)					
<u>Year</u>	<u>Number of Workers</u>	<u>Year</u>	<u>Number of Workers</u>	<u>Year</u>	<u>Number of Workers</u>
1954	31.9	1969	72.4	1985	109.6
1955	35.4	1970	74.5	1986	111.6
1956	37.2	1971	76.1	1987	113.5
1957	38.4	1972	77.8	1988	115.7
1958	43.4	1973	80.4	1989	118.1
1959	46.4	1974	83.3	1990	120.1
1960	48.5	1975	85.3	1991	121.5
1961	50.5	1976	87.0	1992	122.9
1962	51.5	1977	89.3	1993	124.4
1963	52.3	1978	93.7	1994	126.2
1964	53.3	1979	98.0	1995	128.2
1965	55.0	1980	100.3	1996	130.2
1966	55.7	1981	102.6	1997	131.9
1967	56.9	1982	104.5	1998	134.1
1968	70.1	1983	105.4	1999	136.1
		1984	107.1	2000	138.6

Table 10. Estimated Number of DI Insured Workers on December 31, 1954-2000  
After: Social Security Administration, Office of the Chief Actuary, April 2000

Disability Insurance (DI) Beneficiaries					
<u>Year</u>	<u>Workers and Dependents</u>	<u>Year</u>	<u>Workers and Dependents</u>	<u>Year</u>	<u>Workers and Dependents</u>
1970	2,665,629	1980	4,682,172	1990	4,265,981
1971	2,929,900	1981	4,456,274	1991	4,513,040
1972	3,271,486	1982	3,973,465	1992	4,889,696
1973	3,560,706	1983	3,812,930	1993	5,253,566
1974	3,911,951	1984	3,821,804	1994	5,583,519
1975	4,352,498	1985	3,907,169	1995	5,857,656
1976	4,623,827	1986	3,993,279	1996	6,072,034
1977	4,854,206	1987	4,044,724	1997	6,153,039
1978	4,868,576	1988	4,074,300	1998	6,334,570
1979	4,777,218	1989	4,128,827	1999	6,523,730

Table 11. Number of Beneficiaries Receiving DI Benefits on December 31, 1970-1999

After: Social Security Administration, Office of the Chief Actuary, April 2000

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## **V. FUNDING SOCIAL SECURITY**

### **A. FINANCIAL AND BUDGETARY ASPECTS OF SOCIAL SECURITY**

As explained in the preceding chapters, the OASI program provides benefits to retirees and their spouses, or their surviving spouses and eligible dependents in the event of death. DI provides benefits to workers who are unable to perform their jobs due to disability, and to their families.

#### **1. Payroll Tax**

OASDI generates its financial resources by means of a flat-rate payroll tax, levied on all individual and self-employed earnings up to a statutory limit. This limit, called an "earnings base," is periodically adjusted to keep pace with real wage growth. The maximum amount of taxable earnings for calendar year 2000 is \$76,200 (see Table 12).

The payroll tax is considered a shared tax, "equally" distributed between employee and employer. Employees are taxed a total 12.4 percent (ignoring the Medicare Hospital Insurance tax) of taxable earnings. One half of this 12.4 percent (6.2 percent) is paid by the employee, the other half by a matching employer contribution of equal amount. Of the 6.2 percent, for the year 2000 and later, 5.3 percentage points represent an OASI "premium," and .90 percentage points represent a DI "premium".

OASDI Maximum Taxable Earnings					
<u>Calendar Years</u>	<u>Amount</u>	<u>Calendar Years</u>	<u>Amount</u>	<u>Calendar Years</u>	<u>Amount</u>
1937-49	\$3,000	1972	\$9,000	1987	\$43,800
1950	3,000	1973	10,800	1988	45,000
1951-53	3,600	1974	13,200	1989	48,000
1954	3,600	1975	14,100	1990	51,300
1955-56	4,200	1976	15,300	1991	53,400
1957-58	4,200	1977	16,500	1992	55,500
1959	4,800	1978	17,700	1993	57,600
1960-61	4,800	1979	22,900	1994	60,600
1962	4,800	1980	25,900	1995	61,200
1963-65	4,800	1981	29,700	1996	62,700
1966	6,600	1982	32,400	1997	65,400
1967	6,600	1983	35,700	1998	68,400
1968	7,800	1984	37,800	1999	72,600
1969-70	7,800	1985	39,600	2000	76,200
1971	7,800	1986	42,000	2001 and later	subject to increase

Table 12. OASDI Maximum Amount of Taxable Earnings, For The Years 1937-2000

After: Social Security Administration, Office of the Chief Actuary, April 2000

The legislation governing this combined employee and employer payroll tax is titled the Federal Insurance Contributions Act (FICA). Employment taxes were originally included in Title VIII of the Social Security Act of 1935, but were repealed in 1939. They were immediately reenacted as the FICA tax (Schieber and Shoven, 1999).

Many economists argue that the majority of this payroll tax burden is borne by the employee, in that they pay for the payroll tax through reduced wages (Bakija and Steuerle, 1994). This payroll tax on *average*, including the Medicare Hospital Insurance

portion mentioned above, has experienced an increase of more than 3 percentage points since the 1950s.

Self-employed persons are responsible for paying the entire 12.4 percent payroll tax, as defined in the Self-Employed Contributions Act (SECA). Table 13 displays a detailed itemization of the payroll tax rates applicable to employees and employers, and the self-employed, for the years 1957 to 2000.

Periodic adjustments to the OASI and DI tax rates are necessary in order to keep the OASDI trust fund (discussed below) solvent. Legislation was enacted in 1994 to substantially raise the employee and employer DI portion of the OASDI tax rate from 0.6 percentage points for the period 1990-1993, to 0.94 percentage points for the period 1994-1996. This rate increase was enacted by Congress to prevent the DI trust fund from experiencing a deficit in 1995 (Social Security Administration, Reports and Studies: 1995 OASDI Trustees Report, 1995).

Even with the tax rate allocation of 0.9 percentage points for the year 2000, the DI trust fund is estimated to be less well funded than the OASI trust fund. Unlike the OASI trust fund, the DI trust fund is estimated to become financially inadequate at the end of the ten-year, short-range SSA projection period, years 2000 to 2009 (Social Security Administration, Reports and Studies: 2000 OASDI Trustees Report, 2000).

<b>Calendar Years</b>	<b>Tax Rate for Employees and Employers, Each (FICA)</b>			<b>Tax Rate for Self-Employed Persons (SECA)</b>		
	<b><u>OASI</u></b>	<b><u>DI</u></b>	<b><u>TOTAL</u></b>	<b><u>OASI</u></b>	<b><u>DI</u></b>	<b><u>TOTAL</u></b>
1957-58	2.000%	0.250%	2.250%	3.0000%	0.3750%	3.375%
1959	2.250	0.250	2.500	3.3750	0.3750	3.750
1960-61	2.750	0.250	3.000	4.1250	0.3750	4.500
1962	2.875	0.250	3.125	4.3250	0.3750	4.700
1963-65	3.375	0.250	3.625	5.0250	0.3750	5.400
1966	3.500	0.350	3.850	5.2750	0.5250	5.800
1967	3.550	0.350	3.900	5.3750	0.5250	5.900
1968	3.325	0.475	3.800	5.0875	0.7125	5.800
1969	3.725	0.475	4.200	5.5875	0.7125	6.300
1970	3.650	0.550	4.200	5.4750	0.8250	6.300
1971-72	4.050	0.550	4.600	6.0750	0.8250	6.900
1973	4.300	0.550	4.850	6.2050	0.7950	7.000
1974-77	4.375	0.575	4.950	6.1850	0.8150	7.000
1978	4.275	0.775	5.050	6.0100	1.0900	7.100
1979	4.330	0.750	5.080	6.0100	1.0400	7.050
1980	4.520	0.560	5.080	6.2725	0.7775	7.050
1981	4.700	0.650	5.350	7.0250	0.9750	8.000
1982	4.575	0.825	5.400	6.8125	1.2375	8.050
1983	4.775	0.625	5.400	7.1125	0.9375	8.050
1984-87	5.200	0.500	5.700	10.4000	1.0000	11.400
1988-89	5.530	0.530	6.060	11.0600	1.0600	12.120
1990-93	5.600	0.600	6.200	11.2000	1.2000	12.400
1994-96	5.260	0.940	6.200	10.5200	1.8800	12.400
1997-99	5.350	0.850	6.200	10.7000	1.7000	12.400
2000 and later	5.300	0.900	6.200	10.6000	1.8000	12.400

Table 13. Tax Rates as a Percent of Taxable Earnings  
After: Social Security Administration, Office of the Chief Actuary, April 2000

The level of payroll tax receipts as compared to benefit expenditures is graphically displayed in Figure 2.

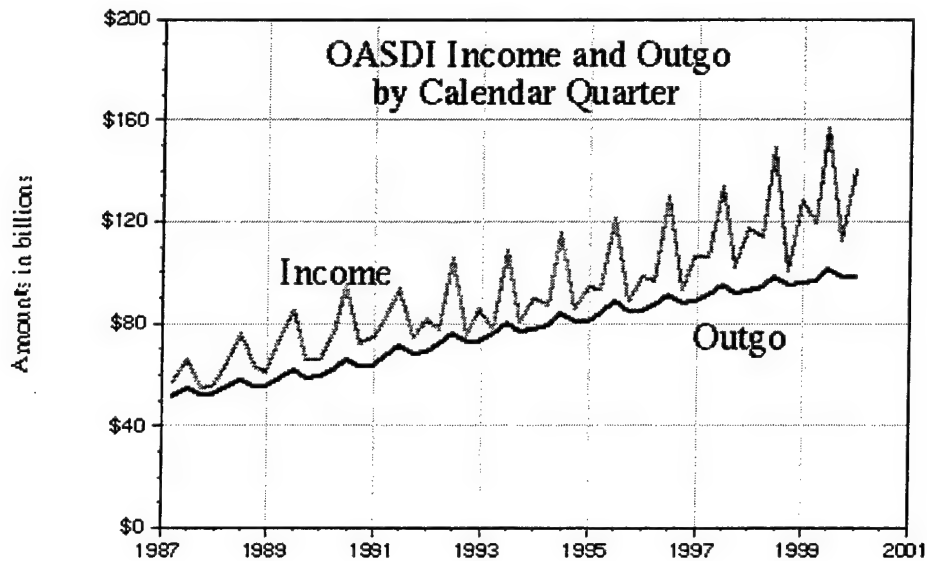


Figure 2. OASDI Income and Outgo, by Quarter, For The Years 1987-2000  
 From: Social Security Administration, Office of the Chief Actuary, April 2000

## 2. Financing Social Security Through Trust Funds

The Social Security system is financed on a pay-as-you-go basis, rather than a reserve system as originally intended by the drafters of the 1935 Social Security Act. Pay-as-you-go simply means that receipts from today's payroll taxes are used to pay today's OASDI benefits.

The payroll tax revenues collected by the United States government are not deposited directly into a special Social Security "bank account." Instead, two distinct "trust funds" have been established to account for these revenues. These trust funds are suitably called the OASI trust fund and the DI trust fund.

As payroll tax revenues flow in to the government, they become part of the government's overall operating cash pool, held and maintained by the United States

Treasury. This money then becomes relatively indistinguishable from all other governmental revenues received. Next, the Treasury issues interest bearing, non-marketable, federal government securities in the amount of the payroll taxes collected, which are then credited toward the corresponding trust fund. As OASI or DI benefits come due, the Treasury issues a check to the beneficiary, and "writes off" (or redeems) an equivalent amount of securities from the trust fund balance (CRS Report for Congress 94-593 EPW, 1998).

The interest rates applicable to these federal government securities are determined by a formula, and are computed on the last business day of the month preceding the month of issue. Interest, in the form of additional securities, is paid semi-annually at the end of June and the end of December (Social Security Administration, Office of the Chief Actuary, April 2000). These securities are credited back into the trust fund accounts, thereby increasing ending account balances.

The effective rates of interest earned by the trust funds for the years 1961 to 1999 are displayed in Figure 3.

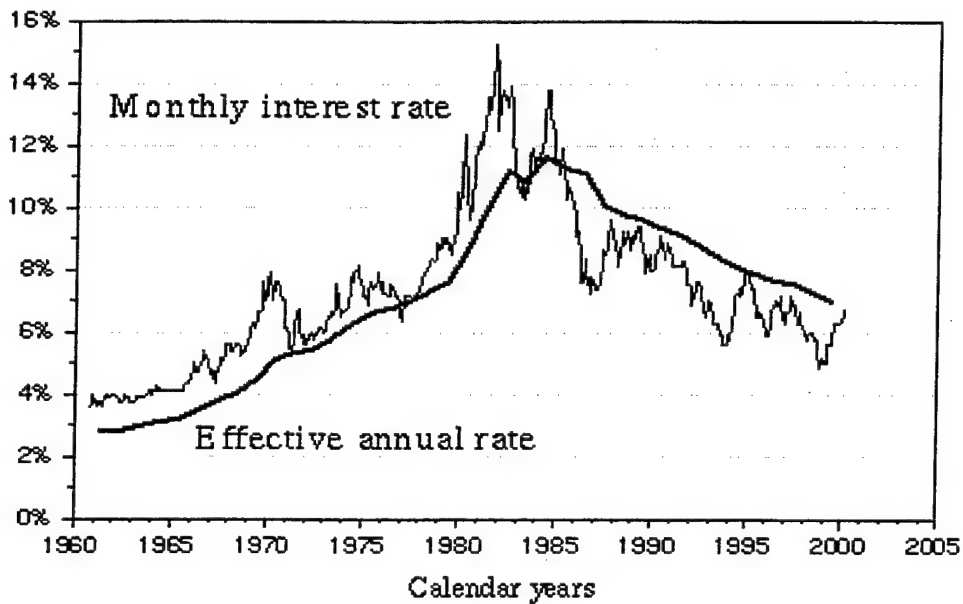


Figure 3. Interest Rates Earned by the Trust Funds, 1961-1999  
 From: Social Security Administration, Office of the Chief Actuary, April 2000

### 3. Trust Fund Surpluses

In anticipation of the inevitable retirement of the large number of baby-boom generation retirees, estimated to begin in approximately 2008, the 1983 amendments to the Social Security Act included an increase in Social Security taxes. This increased tax revenue would allow the trust funds to build up a reserve of resources, or “surplus”, which would be used to help pay for future retirement and disability benefits. Surpluses occur when the amount of payroll taxes received is greater than the amount of benefits paid out.

The accumulated surpluses of the OASDI trust funds do not represent, and should not be confused with, a “stock pile” of excess cash. They simply represent an excess of government securities yet to be redeemed, and can be considered as future claims against the government.

The rapid accumulation of the combined OASI and DI trust fund surpluses for the years 1972 to 1999 can be seen in Table 14.

<u>Calendar Year</u>	<u>Total Receipts</u>	<u>Total Expenditures</u>	<u>Assets</u>	
			<u>Net Change During Year</u>	<u>Amount at End of Year</u>
1972	\$45,622	\$43,281	\$2,341	\$42,775
1973	54,787	53,148	1,639	44,414
1974	62,066	60,593	1,472	45,886
1975	67,640	69,184	-1,544	44,342
1976	75,034	78,242	-3,209	41,133
1977	81,982	87,254	-5,272	35,861
1978	91,903	96,018	-4,115	31,746
1979	105,864	107,320	-1,456	30,291
1980	119,712	123,550	-3,838	26,453
1981	142,438	144,352	-1,914	24,539
1982	147,913	160,111	239	24,778
1983	171,266	171,177	89	24,867
1984	186,637	180,429	6,208	31,075
1985	203,540	190,628	11,088	42,163
1986	216,833	201,522	4,698	46,861
1987	231,039	209,093	21,946	68,807
1988	263,469	222,514	40,955	109,762
1989	289,448	236,242	53,206	162,968
1990	315,443	253,135	62,309	225,277
1991	329,676	274,205	55,471	280,747
1992	342,591	291,865	50,726	331,473
1993	355,578	308,766	46,812	378,285
1994	381,111	323,011	58,100	436,385
1995	399,497	339,815	59,683	496,068
1996	424,451	353,569	70,883	566,950
1997	457,668	369,108	88,560	655,510
1998	489,204	382,255	106,950	762,460
1999	526,582	392,908	133,673	896,133

Table 14. Old-Age, Survivors, and Disability Insurance Trust Funds, in Millions,  
For The Years 1972-1999  
After: Social Security Administration, Office of the Chief Actuary, April 2000

Tables 15 and 16 provide current data on the OASI and DI trust fund surpluses for the years 1972 to 1999, respectively.

<u>Calendar Year</u>	<u>Total Receipts</u>	<u>Total Expenditures</u>	<u>Assets</u>	
			<u>Net Change During Year</u>	<u>Amount at End of Year</u>
1972	\$40,050	\$38,522	\$1,528	\$35,318
1973	48,344	47,175	1,169	36,487
1974	54,688	53,397	1,291	37,777
1975	59,605	60,395	-790	36,987
1976	66,276	67,876	-1,600	35,388
1977	72,412	75,309	-2,897	32,491
1978	78,094	83,064	-4,971	27,520
1979	90,274	93,133	-2,860	24,660
1980	105,841	107,678	-1,837	22,823
1981	125,361	126,695	-1,334	21,490
1982	125,198	142,119	598	22,088
1983	150,584	152,999	-2,416	19,672
1984	169,328	161,883	7,445	27,117
1985	184,239	171,150	8,725	35,842
1986	197,393	181,000	3,239	39,081
1987	210,736	187,668	23,068	62,149
1988	240,770	200,020	40,750	102,899
1989	264,653	212,489	52,164	155,063
1990	286,653	227,519	59,134	214,197
1991	299,286	245,634	53,652	267,849
1992	311,162	259,861	51,301	319,150
1993	323,277	273,104	50,173	369,322
1994	328,271	284,133	44,138	413,460
1995	342,801	297,760	45,041	458,502
1996	363,741	308,217	55,524	514,026
1997	397,169	322,073	75,096	589,121
1998	424,848	332,324	92,524	681,645
1999	457,040	339,874	117,167	798,812

Table 15. Old-Age and Survivors Insurance Trust Fund, in Millions, For The Years 1972-1999

After: Social Security Administration, Office of the Chief Actuary, April 2000

<u>Calendar Year</u>	<u>Total Receipts</u>	<u>Total Expenditures</u>	<u>Assets</u>	
			<u>Net Change During Year</u>	<u>Amount at End of Year</u>
1972	\$5,572	\$4,759	\$813	\$7,457
1973	6,443	5,973	470	7,927
1974	7,378	7,196	182	8,109
1975	8,035	8,790	-754	7,354
1976	8,757	10,366	-1,609	5,745
1977	9,570	11,945	-2,375	3,370
1978	13,810	12,954	856	4,226
1979	15,590	14,186	1,404	5,630
1980	13,871	15,872	-2,001	3,629
1981	17,078	17,658	-580	3,049
1982	22,715	17,992	-358	2,691
1983	20,682	18,177	2,505	5,195
1984	17,309	18,546	-1,237	3,959
1985	19,301	19,478	2,363	6,321
1986	19,439	20,522	1,459	7,780
1987	20,303	21,425	-1,122	6,658
1988	22,699	22,494	206	6,864
1989	24,795	23,753	1,041	7,905
1990	28,791	25,616	3,174	11,079
1991	30,390	28,571	1,819	12,898
1992	31,430	32,004	-574	12,324
1993	32,301	35,662	-3,361	8,963
1994	52,841	38,879	13,962	22,925
1995	56,696	42,055	14,641	37,566
1996	60,710	45,351	15,359	52,924
1997	60,499	47,034	13,465	66,389
1998	64,357	49,931	14,425	80,815
1999	69,541	53,035	16,507	97,321

Table 16. Disability Insurance Trust Fund, in Millions, For The Years 1972-1999  
After: Social Security Administration, Office of the Chief Actuary, April 2000

*a. Comparison of the Trust Fund Surpluses*

While the accumulation of reserves in the combined OASDI trust fund in anticipation of future events has been a primary objective, the reserves also provide an additional level of financial flexibility to the individual funds. As can be seen in Tables 15 and 16, both trust funds have experienced negative net annual changes in assets in the past. During the years when the OASI or DI program's expenditures exceeded receipts, the respective trust fund served as a vehicle to help pay for a portion of that program's annual benefit obligations. Having that cushion to fall back on allowed lawmakers time to pass new legislation regarding the allocation of the payroll tax.

For example, due to higher than anticipated expenditures, the DI trust fund ran a net change in assets of minus \$574 million in 1992, and minus \$3,361 million in 1993. The \$12,898 million 1991 and \$12,324 million 1992 DI trust fund ending balances allowed DI beneficiaries to receive all of their benefit payments during 1992 and 1993. To prevent recurring shortfalls of this nature the FICA tax rates for 1990-1993, 5.6 percent for OASI and 0.6 percent for DI, were adjusted in 1994 to 5.26 percent and 0.94 percent, respectively (see Table 13). As a result, the net change in assets in the DI trust fund was a positive \$13,962 million in 1994, and has remained positive ever since.

**4. On Budget vs. Off Budget**

In fiscal year (FY) 1969, President Johnson, acting under the advice of financial advisers, consolidated all of the financial operations of the government into one budget, called a "unified" budget (CRS Report for Congress 98-422 EPW, 1998). These

consolidated financial operations included government trust funds, of which the OASI and DI trust funds were part.

Through the decades of the 1980s and 1990s, as described above, the OASI and DI trust funds began to develop a rapid accumulation of surplus balances. Simultaneously, the decade of the 1980s was a period of rapid spending growth, coupled with unusually high interest rates and record rates of unemployment. Including the OASDI trust fund surpluses in accounting for the overall federal budget raised a concern among many. It was believed that these trust fund surpluses were inadvertently "masking" government activities that if reported separately, would expose fiscally irresponsible deficit spending.

In order to rectify this issue, the Congress included in the Omnibus Reconciliation Act of 1990 (P.L. 101-508) a statement "prescribing the removal of the income and outgo of the Social Security trust funds from calculations of the federal budget, including the budget deficit or surplus" (CRS Report for Congress 98-422 EPW, 1998, pg. CRS-12). This exclusion applied to budgets prepared by both the President and Congress.

## **VI. SUPPLEMENTAL SECURITY INCOME**

Supplemental Security Income (SSI) is a means-tested, federally administered, income assistance program that pays cash benefits to the needy aged, blind, and disabled. The SSI program originated in the Social Security Act of 1935 and the grants-in-aid established in the Social Security Act Amendments of 1950. SSI beneficiaries are individuals who are limited by their impairments and do not have sufficient resources to provide fully for their own needs.

### **A. GRANTS TO THE STATES**

#### **1. The Social Security Act of 1935**

The Preamble to the Social Security Act of 1935 called for an act to provide for the general welfare of the citizens of the United States by establishing a system of federal old-age benefits. This requirement was satisfied by the Old Age and Survivors Insurance (OASI) program, which provided a level of income to retired workers that allowed them to maintain a standard of living above the poverty threshold.

It also included a requirement for the states to improve their existing financial assistance programs for aged persons, dependent and crippled children, and blind persons. These three requirements were satisfied by Titles I, V and X of the 1935 Act, respectively, and were made possible by federal grants from the general funds account to the states (Social Security Administration, Social Security Act of 1935, 2000).

##### ***a. Title I: Grants for Old-Age Assistance***

The purpose of Title I enabled the states to make available more adequate financial assistance to needy individuals over the age of 65 through an annually

appropriated grant. The amount of this federal grant was based upon the total state estimates for assistance program expenditures, and verification of records showing the number of aged individuals living in that state.

To qualify for old-age assistance grants, state programs were to be available for citizens in all political subdivisions of the state, have adequate levels of state funding, and were to be administered by a single state agency (Social Security Administration, Social Security Act of 1935, 2000). The Social Security Board conducted a review of state programs to ensure compliance prior to appropriating grants.

***b. Title V: Grants for Maternal and Child Welfare***

Title V encompasses five parts, two of which deal specifically with disability issues. Part two provided services for crippled children through an annual appropriation to the states, enabling them to make available “medical, surgical, corrective, and other services and care, and facilities for diagnosis, hospitalization, and aftercare, for children who are crippled or who are suffering from conditions which lead to crippling” (Social Security Administration, Social Security Act of 1935, 2000).

Part four also stipulated an annual appropriation, but was to be used by the states to extend and strengthen “their programs of vocational rehabilitation of the physically disabled, and to continue to carry out the provisions and purposes of the Act entitled An Act to provide for the promotion of vocational rehabilitation of persons disabled in industry or otherwise and their return to civil employment” (Social Security Administration, Social Security Act of 1935, 2000).

*c. Title X: Grants for Aid to the Blind*

Title X stipulated an annual appropriation to qualifying states for the purpose of “enabling each State to furnish financial assistance, as far as practicable under the conditions in such State, to needy individuals who are blind” (Social Security Administration, Social Security Act of 1935, 2000). States qualified for these appropriations by submitting a state plan for aid to the blind to the Social Security Board, the reviewing and approving authority for such plans.

**B. THE SUPPLEMENTAL SECURITY INCOME PROGRAM**

While these grants provided financial support to the states for public assistance programs, there existed a broad inconsistency among the states regarding eligibility criteria, financial capacity, and willingness to provide administrative support. The Congress, therefore, was concerned that the nation’s needy aged, blind and disabled were not receiving equal treatment.

**1. Public Law 92-603**

To correct this deficiency, in 1972 Congress passed Public Law (PL) 92-603. This law established a federal Supplemental Security Income program, administered by the Social Security Administration (SSA), which replaced the categorical state administered programs funded through federal grants. SSI was designed to provide assistance of last resort for the needy aged, blind and disabled (Social Security Administration, *The History and Purpose of the Supplemental Security Income (SSI) Program*, 2000). The SSI program officially went into effect in January 1974.

## **2. A Two Part Plan**

The SSI program is comprised of two parts; a federal benefit program, and a program involving state supplementation of the federal benefit payment. The SSA is responsible for issuing federal SSI benefit checks. States may contract with the SSA to administer their state supplement (included in the federal check), or may choose to administer it themselves.

### ***a. The Federal Program***

Under the guidelines of the federal program, eligibility requirements are uniform across the nation for age, allowable limits on income and personal resources, and the definitions of disability or blindness. The benefit payments under this plan are also uniform, so regardless of which state a qualified individual lives in, his or her benefit is guaranteed to be the same.

In addition, individuals who were receiving benefits through the former grants to states program prior to January 1972 were guaranteed to receive benefits under the new program that would allow them to maintain that same level of assisted income.

### ***b. Mandatory and Optional State Supplementation***

In cases where the new monthly federal SSI benefit was less than the amount received under the previous program, the state was mandated to supplement the federal payment to the December 1973 income level. This would prevent beneficiaries from receiving a reduced benefit amount upon transfer to the new SSI program.

A state also has the option to voluntarily supplement the federal benefit with state funds. The state has the authority to decide whether it will make such

supplementary payments, to whom, and in what amount (U.S. House of Representatives Committee on Ways and Means, 1998). For example, an individual living in an area with a high cost-of-living might need more income than an individual living in an area with a low cost-of-living. Under the new SSI program, however, these two individuals receive an equal benefit amount. In this case, the state might choose to supplement the federal payment paid to the individual living in the area with a high cost-of-living.

### **C. SUPPLEMENTAL SECURITY INCOME ELIGIBILITY AND BENEFIT STRUCTURE**

The SSI program, unlike the OASDI programs, does not require an individual to have a prior work history in order to receive a benefit. This allows individuals who do not qualify under the OASDI program to receive public assistance for their disabilities. However, the monthly SSI cash benefits are means-tested.

#### **1. Determining Eligibility**

The basic eligibility requirements of the SSI program include citizenship and residency, income, financial resources, and age, blindness or disability. Although the eligibility requirements are numerous and might at times seem stringent, many of them are accompanied by exclusions.

##### ***a. Citizenship and Residency***

The first rule for eligibility under the SSI program requires that an individual be a United States citizen and reside within one of the 50 States, the District of Columbia, or the Northern Mariana Islands. Persons who are United States citizens and are living outside the United States for an entire calendar month lose their eligibility for such a month (U.S. House of Representatives Committee on Ways and Means, 1998).

Exceptions to these rules apply to children of persons in the military who are stationed overseas, and to students who are temporarily studying abroad. There is also an exception for legal aliens who are lawfully admitted for permanent residence, or who permanently reside in the United States under applicable law (U.S. House of Representatives Committee on Ways and Means, 1998).

***b. Income***

An individual's countable income is used both to determine the eligibility for, and computing the amount of, a monthly benefit. Countable income is defined as earned and unearned income that can be used as, or to obtain, food, shelter or clothing. Countable income that exceeds the monthly federal benefit rate reduces the monthly benefit dollar-for-dollar (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000).

As defined by SSI law, earned income is "wages, net earnings from self-employment, remuneration for work in a sheltered workshop, royalties on published work, and honoraria for services" (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000, Chapter III). All other income is considered unearned.

Earned income that is excluded includes the first \$65 earned each month, plus one-half of the remainder; impairment related work expenses; income set aside in plans to achieve self-support by a person who is blind or disabled; and infrequent or irregularly received income (\$10 or less a month). Unearned income exclusions include the first \$20 per month; income set aside in plans to achieve self-support by a person who

is blind or disabled; state or locally funded needs based assistance; Housing and Urban Development rent subsidies; the value of food stamps; and infrequent or irregularly received income (\$20 or less a month) (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000).

*c. Financial Resources*

SSI law states that to be eligible for SSI benefits, an individual cannot have resources in excess of \$2,000 (\$3,000 for eligible couples). Resources are defined as "cash or other liquid asset or any real or personal property that individuals (or their spouses) own and could convert to cash to be used for their support and maintenance" (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000, Chapter III).

Exclusions to the financial resources requirements include the home and the land upon which it is built; a life insurance policy whose total face value is less than \$1,500; burial funds less than \$1,500 each for an individual and spouse; household goods and personal effects in which one's equity does not exceed \$2,000; an automobile depending upon its use; property essential to self-support; and resources set aside to fulfill a plan to achieve self-support (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000).

*d. Age, Blindness or Disability*

Sixty-five is the minimum age of eligibility for SSI assistance based on need.

In order to be considered blind, an individual must have central visual acuity of 20/200 or less in the better eye with the use of a correcting lens, or have tunnel vision of 20 degrees or less.

An individual, to be considered disabled, must have a medically determinable physical or mental impairment. This impairment must be expected to last, or has lasted at least, 12 continuous months or result in death. If the disabled person is 18 or older, the disability must prevent him or her from participating in any substantial gainful activity. Or, if under 18, the disability must result in marked and severe functional limitations (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000). Figure 4 graphically displays SSI recipients by category and age as of December 1999.

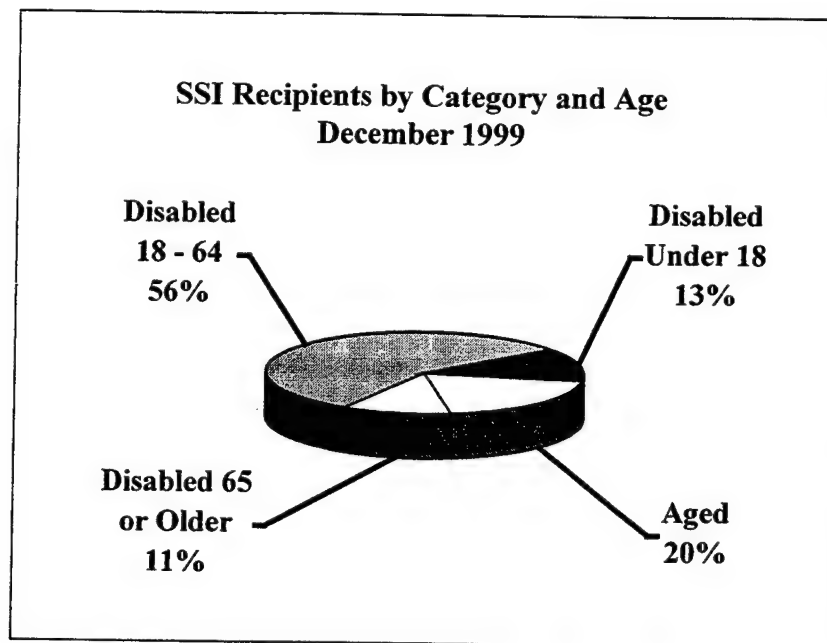


Figure 4. SSI Recipients by Category and Age, December 1999  
After: Social Security Administration, Office of Policy, May 2000

## **2. Determining the Benefit**

The maximum federal SSI payment amounts are adjusted annually with automatic cost-of-living increases indexed to the Consumer Price Index (CPI). The monthly federal SSI benefit amounts for the year 2000 are \$512 for an eligible individual, and \$769 for an eligible individual with an eligible spouse (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000).

Table 17 provides data on the average monthly SSI payment amounts for the years 1975-2000. The amounts shown for 1976-1983 became effective for July of the stated year. For 1984 and after, the amounts were effective for January.

As explained above, states are either mandated to supplement the monthly federal SSI benefit payment, or may supplement it with a state funded payment. The variability of the state supplements are too numerous and complex to warrant discussion here.

### **D. FINANCIAL AND BUDGETARY ASPECTS OF SUPPLEMENTAL SECURITY INCOME**

Monthly federal SSI payments and administrative costs are initially paid out of the OASI and DI trust fund accounts. These trust funds are then subsequently reimbursed for such expenditures from the General Fund of the Treasury (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000).

Monthly Maximum Federal SSI Benefit Payment Amounts							
<u>Year</u>	<u>Automatic Increase</u>	<u>Eligible Individual</u>	<u>Eligible Couple</u>	<u>Year</u>	<u>Automatic Increase</u>	<u>Eligible Individual</u>	<u>Eligible Couple</u>
1975	8.0%	\$157.70	\$236.60	1988	4.2%	\$354.00	\$532.00
1976	6.4	167.80	251.80	1989	4.0	368.00	553.00
1977	5.9	177.80	266.70	1990	4.7	386.00	579.00
1978	6.5	189.40	284.10	1991	5.4	407.00	610.00
1979	9.9	208.20	312.30	1992	3.7	422.00	633.00
1980	14.3	238.00	357.00	1993	3.0	434.00	652.00
1981	11.2	264.70	397.00	1994	2.6	446.00	669.00
1982	7.4	284.30	426.40	1995	2.8	458.00	687.00
1983	7.0	304.30	456.40	1996	2.6	470.00	705.00
1984	3.5	314.00	472.00	1997	2.9	484.00	726.00
1985	3.5	325.00	488.00	1998	2.1	494.00	741.00
1986	3.1	336.00	504.00	1999	1.3	500.00	751.00
1987	1.3	340.00	510.00	2000	2.4	512.00	769.00

Table 17. Monthly Maximum Federal SSI Benefit Payment Amounts, For The Years 1975-2000

After: Social Security Administration, Office of the Chief Actuary, April 2000

Note: The 7.0 percent increase effective for July 1983 was a legislated increase.

For states that contract with the SSA for administration of its supplement, the SSA maintains the state's payment records and issues the monthly payment. The federal payment and the state supplement are then issued together in one check (U.S. House of Representatives Committee on Ways and Means, 1998).

The Omnibus Reconciliation Act (OBRA) of 1993 included a requirement for contracting states to pay the SSA a fee for federal administration of their supplement. Prior to passage of this Act the SSA had assumed these administrative costs, and was

reimbursed by the state only for the supplemental payment amount (Social Security Administration, Assistance Programs: Supplemental Security Income, 1997).

The total historical annual SSI federal payments, in constant 2000 dollars, are displayed in Table 18.

## **E. SUPPLEMENTARY SECURITY INCOME PROGRAM GROWTH**

### **1. Historical Growth**

During the first 15 years of the SSI program's life, the number of persons receiving a federally administered SSI payment remained at a relatively constant 4 million. During the 1990s, however, the recipients of public assistance for the needy aged, blind or disabled grew by roughly 50 percent (Social Security Administration, Office of Policy, 2000). Approximately 6.6 million individuals received benefits during December 1999. Table 19 contains the total number of SSI recipients, number and percentage distribution by age, for the years 1974 to 1999.

### **2. Projected Growth**

During the latter part of the 1990s, the SSI program experienced moderate declines in the number of beneficiaries due to the impact of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 (PL 104-193). However, modest growth in the SSI rolls resumed in 1998, and is expected to continue during the first quarter of the twenty-first century. By 2024, the federal SSI recipient population is estimated to reach 7.7 million. Expressed as a percentage of the total United States population, "the number of Federal SSI recipients is projected to remain fairly level at

roughly 2.2 to 2.3 percent of the population through 2024” (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000, Chapter II).

As indicated in Table 18, federal expenditures for SSI payments (constant 2000 dollars) in calendar year 2000 are estimated to total \$29.4 billion, an increase of roughly \$1.2 billion from 1999 levels. Growth in SSI program outlays during the next 25 years is projected to remain relatively modest, roughly equal to overall growth in the United States population. In constant 2000 dollars, the cost of the program is projected to increase to \$37.6 billion in 2024 (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000). Figure 5 is a graphical representation of past total SSI benefit payments, by age group, including projected total payments through the year 2024.

Furthermore, when compared to the gross domestic product (GDP), federal SSI expenditures are projected to decline over time, from the current level of 0.31 percent of GDP in 1999 to 0.26 percent of GDP by 2024 (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000). This can be seen in Figure 6.

Annual SSI Federal Payments in Constant 2000 Dollars (in millions)			
<u>Calendar Year</u>	<u>Blind or Disabled</u>	<u>Aged</u>	<u>Total</u>
1974	\$6,953	\$6,037	\$12,990
1975	7,682	5,730	13,412
1976	8,019	5,249	13,268
1977	8,192	4,797	12,989
1978	8,843	4,736	13,579
1979	8,159	4,050	12,209
1980	8,219	3,798	12,017
1981	8,439	3,613	12,052
1982	8,570	3,461	12,031
1983	9,212	3,478	12,690
1984	9,991	3,553	13,544
1985	10,403	3,458	13,860
1986	11,325	3,422	14,748
1987	11,751	3,304	15,055
1988	12,193	3,253	15,446
1989	12,740	3,238	15,978
1990	13,591	3,285	16,876
1991	15,782	3,515	19,296
1992	19,513	3,643	23,156
1993	21,836	3,823	25,659
1994	22,738	3,905	26,642
1995	24,036	3,929	27,966
1996	24,974	3,952	28,926
1997	24,594	3,876	28,469
1998	25,295	3,874	29,169
1999	25,253	3,823	29,076
2000	25,586	3,793	29,379

Table 18. SSI Annual Federal Payments in Constant 2000 Dollars, in Millions,  
Calendar Years 1974-2000

After: Social Security Administration, Office of the Chief Actuary, April 2000

Note: The year 2000 amount is based upon partial estimate.

Month/ Year	Total	Age					
		65 or Older		18 – 64		Under 18	
		Number	Percent of Total	Number	Percent of Total	Number	Percent of Total
1974	3,996,064	2,422,009	60.6%	1,503,155	37.6%	70,900	1.8%
1975	4,314,275	2,507,855	58.1	1,699,394	39.4	107,026	2.5
1976	4,235,939	2,396,933	56.6	1,713,594	40.5	125,412	3.0
1977	4,237,692	2,353,458	55.5	1,736,879	41.0	147,355	3.5
1978	4,216,925	2,303,900	54.6	1,747,126	41.4	165,899	3.9
1979	4,149,575	2,245,716	54.1	1,726,553	41.6	177,306	4.3
1980	4,142,017	2,220,776	53.6	1,730,847	41.8	190,394	4.6
1981	4,018,875	2,121,090	52.8	1,702,895	42.4	194,890	4.8
1982	3,857,590	2,010,741	52.1	1,655,279	42.9	191,570	5.0
1983	3,901,497	2,003,400	51.3	1,699,774	43.6	198,323	5.1
1984	4,029,333	2,037,287	50.6	1,780,459	44.2	211,587	5.3
1985	4,138,021	2,031,469	49.1	1,879,168	45.4	227,384	5.5
1986	4,269,184	2,017,528	47.3	2,010,458	47.1	241,198	5.6
1987	4,384,999	2,015,387	46.0	2,118,710	48.3	250,902	5.7
1988	4,463,869	2,006,020	44.9	2,202,714	49.3	255,135	5.7
1989	4,593,059	2,026,243	44.1	2,301,926	50.1	264,890	5.8
1990	4,817,127	2,058,641	42.7	2,449,897	50.9	308,589	6.4
1991	5,118,470	2,079,784	40.6	2,641,524	51.6	397,162	7.8
1992	5,566,189	2,099,703	37.7	2,910,016	52.3	556,470	10.0
1993	5,984,330	2,113,239	35.3	3,148,413	52.6	722,678	12.1
1994	6,295,786	2,119,057	33.7	3,335,255	53.0	841,474	13.4
1995	6,514,134	2,114,830	32.5	3,482,256	53.5	917,048	14.1
1996	6,613,718	2,090,151	31.6	3,568,393	54.0	955,174	14.4
1997	6,494,985	2,053,532	31.6	3,561,625	54.8	879,828	13.5
1998	6,566,069	2,032,983	31.0	3,646,020	55.5	887,066	13.5
1999	6,556,634	2,018,601	30.8	3,690,970	56.3	847,063	12.9

Table 19. Total Number of SSI Recipients, Number and Percentage Distribution by Age, For The Years 1974-1999  
After: Social Security Administration, Office of Policy, May 2000

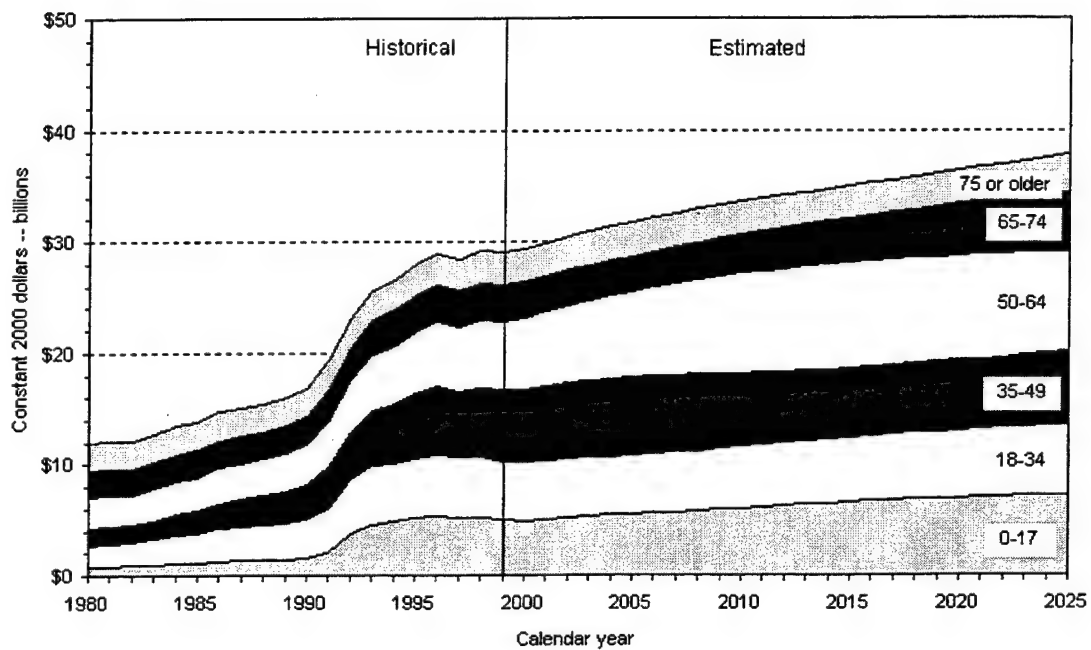


Figure 5. SSI Federal Payments by Age Group, Constant 2000 Dollars, in Billions,  
Calendar Years 1980-2025  
From: Social Security Administration, Office of the Chief Actuary, May 2000

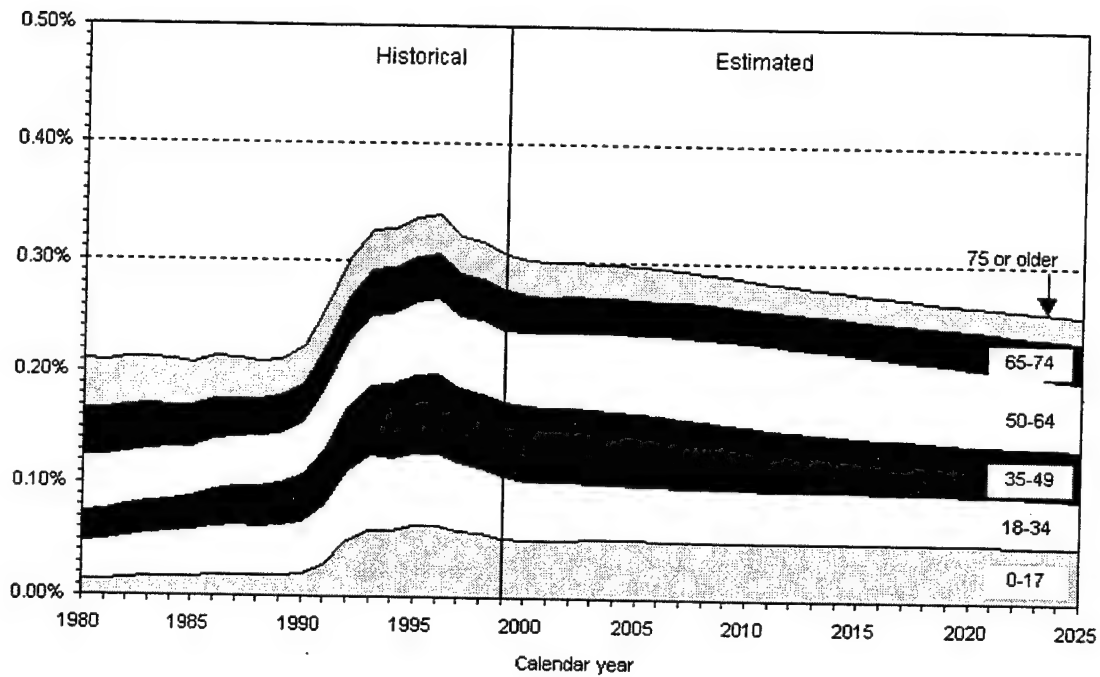


Figure 6. SSI Federal Payments, by Age Group, as a Percentage of GDP, Calendar Years 1980-2025

From: Social Security Administration, Office of the Chief Actuary, May 2000

## **VII. SUPPLEMENTAL SECURITY INCOME AND WELFARE REFORM**

Through the course of its history, the purpose of the Supplemental Security Income (SSI) program has remained unchanged. That purpose has been to provide a safety net of financial assistance to the nation's needy aged, blind, and disabled who do not qualify for Social Security Disability Insurance (DI) benefits.

As the SSI program grew larger over time, it was subjected to several legislative and administrative changes intended to control its escalating costs. Twenty years after its inception, SSI had become one of the fastest growing entitlement programs; its costs grew from 1991 through 1994 at an annual rate of 20 percent. By 1994, more than six million SSI recipients received approximately \$22 billion in federal benefits and more than \$3 billion in supplemental state benefits (National Center for Policy Analysis, 1996).

While these legislative and administrative changes concentrated on redefining disability, they failed to achieve the intended results of slowing the overall growth in program participation, and in fact contributed to that growth. In 1996, another major reform of public policy was approved in an attempt to reverse this trend.

### **A. THE PERSONAL RESPONSIBILITY AND WORK OPPORTUNITY RECONCILIATION ACT OF 1996**

1996 was a pivotal year for the SSI program, witnessing the introduction of substantial limitations to the eligibility requirements established in the original SSI legislation, Public Law (PL) 92-603, and its subsequent amendments. This change was put into effect through the passage of the Personal Responsibility and Work Opportunity

Reconciliation Act (PRWORA) of 1996 (PL 104-193), signed into law by President Clinton on August 22, 1996.

The PRWORA had the most significant effect upon the eligibility status of two specific categories of SSI beneficiaries; children under the age of 18, and foreign-born noncitizen recipients. The remainder of this section will be dedicated to a discussion focusing upon the effect that the PRWORA had upon these distinct groups of individuals.

### **1. Children Under Age 18**

Pursuant to laws existing in 2000 defining childhood disability, a child qualifies for SSI disability benefits if he or she has a medically determinable physical or mental impairment that is expected to last, or has lasted at least, 12 continuous months; or that would result in the child's death. In addition, the disability must result in marked and severe functional limitations (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000). This, however, was not always the case.

#### ***a. Expanding the Scope of Childhood Disability***

During the time from the start of the SSI program in 1974 until 1990, children's disabilities were evaluated using the same standards that were used to evaluate adult disabilities. A child was considered disabled if he or she suffered from a condition that was a medically determinable physical or mental impairment comparable in severity to an impairment that would disable an adult. In order to qualify for SSI benefits, a child's medically determinable physical or mental impairment had to meet, or be judged to medically equal, the severity of an impairment in the "Listing of Impairments" found in Appendix 1 of Subpart P of 20 CFR (Code of Federal Regulations) Part 404. This

catalog of impairments is commonly referred to as "the Listing" (Social Security Administration, *Determining Disability for a Child Under Age 18*, 1997).

However, unlike an adult, children suffering from impairments that were not included in this special list were not given an additional, individual assessment of their "residual functional capacity" (Social Security Administration, Office of Policy: *Policy Evaluation of the Effects of the 1996 Welfare Reform Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings*, 2000). If their condition did not appear in the Listing, their case was simply dismissed. This list, therefore, proved to be restrictive to certain categories of childhood impairments, and arguably biased toward adults, in the types of disabilities that enabled applicants under age 18 to receive SSI disability benefits.

Aside from children not being given an opportunity for reevaluation, there was also concern regarding the fundamental practice of comparing the disabilities of children to those of adults. Because young children generally do not work, it was felt that the steps in the existing disability evaluation process did not apply to them. A new step in the process of evaluating childhood disabilities was, therefore, needed. This step was to be analogous to the vocational rules used for adults, but would consider a child's ability or inability to function in a manner similar to children of the same age group (Social Security Administration, *A Factsheet from Social Security: Welfare Reform and SSI Childhood Disability*, 1997).

As a result, the SSA, in response to the Social Security Disability Benefits Reform Act (DBRA) of 1984 (PL 98-460), modified the Listing of childhood mental

impairments through new regulations that it issued in December 1990. These new regulations increased the number of listed childhood mental impairments from four to eleven, and were focused more directly towards impairments that affected a child's ability to perform age-appropriate activities (Social Security Administration, Office of Policy: Policy Evaluation of the Effects of the 1996 Welfare Reform Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings, 2000).

Another event that prompted the SSA to reevaluate its definition of childhood disability was the February 1990 Supreme Court decision *Sullivan v. Zebley*, 493 U. S. 521 (1990). The court found that, in the case of a disapproved application, the SSA's failure to perform an individual assessment of a child's residual functional capacity was in violation of the SSI statutes. It also found that the SSA was negligent in providing sufficient evaluations of children whose conditions were either not listed, or were a combination of impairments that together did not meet the definition of any single impairment in the Listing (Social Security Administration, Office of Policy: Policy Evaluation of the Effects of the 1996 Welfare Reform Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings, 2000).

Once again, the SSA found itself issuing new regulations, this time explicitly redefining childhood "comparable severity." The new definition, included in the February 1991 modifications, classified a childhood impairment of comparable severity to be one that limits a child's "ability to function independently, appropriately, and effectively in an age-appropriate manner" (Social Security Administration, Office of

Policy: Policy Evaluation of the Effects of the 1996 Welfare Reform Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings, 2000).

A further correction the SSA made to its childhood impairment evaluation process, ensuing from the *Zebley* decision, was the requirement to perform an Individualized Functional Assessment (IFA). IFAs were mandatory in cases where a child's disability was determined not to be medically equivalent to a listed impairment. The IFA was conducted, then, to determine if the child's impairment(s) instead met the comparable severity standard mentioned above.

The new definitions and eligibility requirements of childhood disability went into effect immediately, and were used in evaluating all child SSI applicants until the PRWORA was enacted in 1996. By increasing the number of qualifying impairments, redefining comparable severity, and employing the process of IFAs, SSA would be better able to assess child SSI applicants. To further ensure that no qualified applicant was left without a benefit, all child SSI eligibility evaluations made between the years 1980 and 1991 were to be reevaluated using the new guidelines outlined in the modified SSA regulations (Social Security Administration, Office of Policy: Policy Evaluation of the Effects of the 1996 Welfare Reform Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings, 2000).

***b. Unprecedented Program Growth***

The combined effects of the SSA modifications to the definition and eligibility requirements of childhood disability on child SSI program participation were startling. During the years 1989 to 1996, the total number of children receiving SSI

benefits nearly quadrupled, from approximately 265,000 to practically one million. Accompanying this sizeable increase in caseload was a reorganization of caseload composition; child SSI recipients diagnosed with a form of mental impairment increased from approximately 48 percent to over 67 percent of all child SSI cases between 1989 and 1996 (Social Security Administration, Office of Policy: Policy Evaluation of the Effects of the 1996 Welfare Reform Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings, 2000).

This unprecedented growth has been attributed primarily to the changes initiated by the 1984 DBRA and the 1990 Supreme Court decision in *Sullivan v. Zebley* (Social Security Administration, Office of Policy: Policy Evaluation of the Effects of the 1996 Welfare Reform Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings, 2000). Concerns that SSI was now providing assistance to children whose impairments had improved as they grew older, or whose condition did not actually warrant such assistance were raised. A report to Congress in 1995 prepared by the National Commission on Childhood Disability recommended that a number of changes be made to the SSI program. Some of these recommended changes included: lump-sum benefits; Medicaid coverage for children with improved (but not completely cured) conditions; periodic Continuing Disability Reviews (CDRs) for reevaluating the status of a child's condition; treatment of the condition (if available); and, reassessing the definition of childhood disability (Social Security Administration, Office of Policy: Policy Evaluation of the Effects of the 1996 Welfare Reform Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings, 2000).

*c. Constricting the Scope of Childhood Disability*

Many of these recommended changes were incorporated in 1996 into the PRWORA legislation. Four provisions of the Act pertinent to child SSI eligibility, and their overall estimated effects, are identified and discussed below.

Under the new law, the comparable severity definition that followed the *Zebley* decision was repealed. It was replaced with a new definition of childhood disability perceived to be unique to children. The former definition that classified a childhood impairment of comparable severity to be one that limits a child's "ability to function independently, appropriately, and effectively in an age-appropriate manner," was replaced by "a medically determinable physical or mental impairment, which results in marked and severe functional limitations, and which can be expected to result in death or which has lasted or can be expected to last for a continuous period of not less than 12 months" (Social Security Administration, *Determining Disability for a Child Under Age 18*, 1997). This new definition applied to new applicants, and to current SSI recipients who were awaiting eligibility redetermination.

Next, the PRWORA eliminated the mandatory IFA, which was established in 1991. It was replaced by the SSA with a three-step evaluation process to assess the functional equivalency of a child's impairment, which was then compared to conditions currently recorded in the Listing. The result of the functional equivalency assessment of a child, as described under the new SSI eligibility standards, requires "at least two marked limitations for a child" to be considered disabled (Social Security Administration, *Office of Policy: Policy Evaluation of the Effects of the 1996 Welfare Reform*

Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings, 2000).

Upon attaining the age of 18, SSI recipients would now be evaluated under the criteria used to evaluate adult disability.

And finally, for children under age 18 whose impairment was judged likely to improve, a triennial review to redetermine their eligibility status was required through the CDR process. Children who had previously been evaluated as SSI eligible through the former IFA procedure were now subjected to eligibility redetermination as well.

Following the passage of the PRWORA in August, approximately 264,000 of the estimated one million child SSI recipients were sent informational notices from the SSA during the fall of 1996. These notices stated that they were now candidates for SSA eligibility redetermination. As mandated by the Act, this redetermination process was to be completed by July 1997, with cessation of SSI benefits to begin in August 1997. Of these 264,000 SSI recipients receiving redetermination notices, the SSA estimated that approximately 135,000 would eventually lose benefits following the completion of an exhaustive appeals process.

## **2. Foreign-Born Noncitizens**

Prior to 1972 and the SSI program, federal law did not precisely determine whether noncitizens were eligible for public assistance under the Grants to the States program (see Chapter VI, section A.) The administration of and eligibility requirements for that program were left entirely to the discretion of the individual states.

On June 14, 1971, the Supreme Court decided in *Graham v. Richardson*, 403 U.S. 365 (1971), that welfare laws that discriminated against noncitizens, as a class, were in violation of the equal protection clause of the 14<sup>th</sup> Amendment of the United States Constitution. Discrimination in this context was defined as the imposition of duration of residency requirements applicable to noncitizens for eligibility for public assistance (Kennedy, Parrott and Scott, 1998). As a result of the *Graham* decision, states were required to provide public assistance to resident aliens using the same criteria on which they provided benefits to United States citizens.

**a. *Defining Noncitizen Eligibility***

SSI began in the House of Representatives when it passed H.R. 1 on June 22, 1971; the Senate Finance Committee reported out its version of SSI on October 6, 1972. Both versions included a provision defining the eligibility criteria of SSI benefits for noncitizens. The provision stated that only those noncitizens possessing immigration visas, and who had been "lawfully admitted for permanent residence" (LPR) into the United States, would qualify for SSI benefits (Kennedy, Parrott and Scott, 1998).

On the floor of the Senate, Senator Chiles (D., FL) proposed two amendments that would further expand the eligibility criteria for noncitizens included in H.R. 1. First, noncitizens who were "permanently residing under color of law" (PRUCOL) in the United States would be eligible for SSI benefits once the Grants to the States program was federalized. Second, the term PRUCOL was loosely defined in accordance with verbiage found in the Immigration and Nationality Act (INA) pertaining to certain categories of refugees and immigration parolees.

Both of these amendments were included in the Social Security Amendments of 1972, of which the SSI program was part.

***b. Attempts to Limit Noncitizen Eligibility: Round One***

Shortly after the SSI program began making payments in 1974, concerns about the eligibility for SSI benefits of newly arrived immigrants were raised. Some felt that the SSI program was being abused by noncitizens who had entered the United States with the sole intention of receiving public assistance. Furthering this belief was a July 1975 General Accounting Office (GAO) report which concluded that "more than one-half of immigrants had applied for benefits within 2 years after entry, and 44 percent within 5 years after entry" (Kennedy, Parrott and Scott, 1998, pg. 28).

Based upon the findings of its study, GAO recommended that Congress make a sponsor's promise to financially support a newly arrived immigrant legally binding. Until this time, sponsors' promises had been legally unenforceable.

On June 14, 1977, the House passed H.R. 7200, the Public Assistance Amendments of 1977. A provision in this House-passed bill would have required that the income and resources of a sponsor would be attributed, or deemed, to a noncitizen for the period of three years for which the sponsor had promised financial support. If the sponsor's income and resources exceeded a specified threshold, then the noncitizen immigrant would be ineligible for SSI benefits.

H.R. 7200 was never put to the Senate floor for vote, and therefore did not become law.

On June 5, 1979, the Carter Administration sent to Congress its proposals for welfare reform. These welfare reform proposals included provisions to classify noncitizens who had received unreimbursable public assistance as public charges who were subject to deportation; authorize legal action for the reimbursement of public assistance provided to newly arrived noncitizens; and, to make legally binding, for a period of five years, a sponsor's written and signed promise to financially support a newly arrived immigrant (Kennedy, Parrott and Scott, 1998).

These proposals were reported out of the House Ways and Means Subcommittee on Public Assistance and Unemployment Compensation as H.R. 4904. H.R. 4904 was passed by the House on November 7, 1979. The Subcommittee changed the Administration's deeming of a sponsor's income and resources from a period of five years to the length of the period of the promise to support, or for three years, unless deeming would have caused destitution for the immigrant (Kennedy, Parrott and Scott, 1998). However, as was the case with H.R. 7200, H.R. 4904 was not taken up by the Senate.

*c. Limiting Noncitizen Eligibility: Round One*

Although the Senate had not taken H.R. 7200 or H.R. 4904 into consideration, it was working on a previously House-passed piece of legislation, H.R. 3236, the Social Security Disability Amendments of 1980. H.R. 3236 provided for changes in the SSI disability program, but did not include provisions pertaining to noncitizen eligibility.

The version of H.R. 3236 that was eventually reported out of conference did in fact address the issue of noncitizen SSI eligibility, and contained the following terms:

The conference provision would deem a sponsor's income and resources to the noncitizen for the 3-year period following the noncitizen's arrival. An amount of the sponsor's income representing specific allocations for him- or herself and his or her dependents would be exempted from deeming. In addition, the noncitizen would be responsible for obtaining information on a sponsor's income and resources and could be denied SSI eligibility for failing to provide the information. Noncitizens and sponsors would be held jointly liable for any overpayment during the 3-year period resulting from incorrect information furnished to SSA. Exceptions to deeming were made for persons who became blind or disabled after their entry into the United States, refugees, asylees, and certain parolees (Kennedy, Parrott and Scott, 1998, pg. 5).

Holding sponsors legally accountable for the immigrants to whom they had pledged support would at last become reality, intending to help slow the growth in noncitizen SSI participation. Finally, after more than six years following payment of the first federal SSI benefit, on June 9, 1980, President Carter signed H.R. 3236 into law (PL 96-265). The deeming of a sponsor's income to noncitizens, for the purpose of SSI benefits, became effective for all SSI applications filed after September 30, 1980.

*d. Temporarily Expanding Noncitizen Eligibility*

The efforts to restrict noncitizen eligibility for SSI benefits was somewhat minimized in 1985. In a decision by the UNITED STATES Court of Appeals in the Second Circuit in *Berger v. Heckler*, 771 F.2d 1556 (2d Cir. 1985), the definition of PRUCOL was reinterpreted for the SSI program to include "15 specific categories of noncitizens and also provided the general principle that noncitizens are PRUCOL if the INS [Immigration and Naturalization Service] knows of and permits their presence in the

country and *does not contemplate enforcing their departure*" (Kennedy, Parrott and Scott, 1998, pg. 6).

The effects of this relaxation of noncitizen SSI eligibility restrictions would further swell the rolls of noncitizen SSI beneficiaries for the next several years. When the 104<sup>th</sup> Congress convened on January 4, 1995, with the first Republican majority in both chambers of Congress in forty years, welfare reform once again became a heated debate.

*e. Attempts to Limit Noncitizen Eligibility: Round Two*

When President Clinton first took office in January 1993, he promised to "end welfare as we know it" (Kennedy, Parrott and Scott, 1998, pg. 6). On June 21, 1994, his administration sent to Congress a proposed bill, the Work and Responsibility Act of 1994, outlining a comprehensive welfare reform plan. This draft bill included provisions that would have allowed SSI benefits for noncitizens who were LPRs; lawful *temporary* residents; refugees; asylees; or, noncitizens whose deportations had been withheld or suspended.

After Congressional hearings were held, many of the provisions in the administration's draft bill were included in the conference bill, H.R. 5252, the Social Security Act Amendments of 1994. However, when signed into law on October 31, 1994, PL 103-432 included none of the provisions affecting noncitizen SSI eligibility.

During 1995, a yearlong attempt by the Republican-led Congress for welfare reform to include restricting noncitizen eligibility for SSI benefits proved the seriousness of the issue of reform. H.R. 4, starting in the House as the Personal

Responsibility Act of 1995, was one of the first pieces of legislation introduced in January 1995 by the newly elected 104<sup>th</sup> Congress. Once passed by the House on March 4, and by the Senate on September 19, this legislation became the subject of a conference committee on October 24. The conference committee report included the following provisions pertaining to noncitizens: all noncitizens would be ineligible for SSI benefits, except for certain refugees, asylees, LPRs, and noncitizen active duty United States military personnel; current noncitizen SSI recipients not meeting one of the above exceptions would remain eligible until January 1, 1997, at which time they would lose benefits; and, full deeming of a sponsor's income and resources until the noncitizen was either naturalized or had been credited with 40 quarters of covered and approved work (Kennedy, Parrott and Scott, 1998).

The report passed the House and the Senate on December 21 and 22, 1995, respectively. When it reached President Clinton's desk on January 22, 1996, H.R. 4, the Personal Responsibility and Work Opportunity Act of 1995, was vetoed.

*f. Limiting Noncitizen Eligibility: Round Two*

With the veto ink barely dry on H.R. 4, the Clinton administration sent another welfare reform proposal to Congress, the Work First and Personal Responsibility Act of 1996, on April 26. This proposal, unlike the proposal of 1994, was not given Congressional hearing or action.

Between May and July, the House and the Senate introduced several bills regarding welfare reform. Following deliberations and markups of these bills, a report emerged from the conference committee on July 30, 1996, as H.R. 3734, the Welfare

Reform Reconciliation Act of 1996. This bill was accepted by the administration and signed into law on August 22, 1996. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 (PL 104-193), so it seemed, put to rest the long debate over noncitizen SSI eligibility.

*g. The Details of the Act*

The provisions within the PRWORA pertaining to noncitizens' SSI eligibility status contain many of those found in the previously vetoed H.R. 4. Effective upon enactment, the new law prohibited SSI eligibility for all noncitizens except: certain refugees and asylees (for a period of five years following entry into the United States); noncitizens who have had their deportation withheld; certain active duty United States military personnel, honorably discharged veterans, and their spouses and dependent children; and LPRs who have earned 40 quarters of coverage for Social Security purposes. However, with regard to individuals on the SSI rolls at the time of enactment, the Commissioner of the SSA was required to redetermine the eligibility of all noncitizens who did not meet the new eligibility categories within one year following enactment of the Act.

The PRWORA deemed all of a sponsor's income and resources to the noncitizen until the noncitizen is naturalized, with the following exception: deeming would end before citizenship in the case of LPRs who were credited with 40 quarters of covered and approved work.

Regarding affidavits of support, the PRWORA made all affidavits of support legally enforceable against a sponsor until the noncitizen became a United States

citizen. The affidavit would be enforceable for a period of ten years after the noncitizen last received SSI benefits.

Next, the PRWORA required any agency that provided assistance to a noncitizen to request reimbursement from the sponsor for the assistance it provided. If the sponsor did not respond or was unwilling to make reimbursement within 45 days after the agency's request, the agency was authorized to take legal action against the sponsor. It would also allow the agency to hire individuals to collect reimbursement.

And finally, the PRWORA required the Commissioner of the SSA to furnish the name, address, and other identifying information to the INS of any individual that the SSA knew to be residing unlawfully in the United States. Such reports were required at least four times a year. In addition, the Commissioner was required to ensure that the supplementary program agreements with states included provisions for the state to furnish such information as well (Social Security Administration, The President Signs H.R. 3734, The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, 1996).

### **3. Program Reduction Estimations**

Following passage of the PRWORA, the Office of Management and Budget (OMB) requested the SSA to estimate the amounts by which child and noncitizen SSI program participation would decline. Provisions included in the Act were expected to result in annual reductions in SSI program participation.

Table 20 displays the estimated annual reductions in the number of federal child and noncitizen SSI recipients in payment status for fiscal years (FY) 1997-2002. These

estimates reflect certain assumptions regarding the exact implementation of the provisions of the PRWORA (Social Security Administration, Office of the Chief Actuary: MEMORANDUM, 1996).

<u>Fiscal Year</u>	<b>Provision</b>	
	<b><u>Redefine Childhood Disability</u></b>	<b><u>Limit Noncitizen Eligibility</u></b>
1997	35,000	160,000
1998	185,000	505,000
1999	240,000	530,000
2000	245,000	550,000
2001	250,000	570,000
2002	250,000	585,000

Table 20. Estimated Reductions in Average Number of Federal SSI Recipients in Payment Status Under Selected Provisions of PL 104-193, Fiscal Years 1997-2002  
After: Social Security Administration, Office of the Chief Actuary, September 1996

Table 21 displays the estimated annual reductions of federal child and noncitizen SSI payments for FY 1997-2002.

## **B. THE BALANCED BUDGET ACT OF 1997**

While signing the PRWORA into law, President Clinton indicated that he felt the new law was too restrictive and harsh towards noncitizen immigrants who were legally residing in the United States. Although he approved the bill, President Clinton vowed to continue to work with Congress to "right the wrongs" of welfare reform and restore benefits for legal immigrants.

<b>Fiscal Year</b>	<b>Provision</b>	
	<b>Redefine Childhood Disability</b>	<b>Limit Noncitizen Eligibility</b>
1997	\$200,000,000	\$815,000,000
1998	1,085,000,000	2,690,000,000
1999	1,445,000,000	2,905,000,000
2000	1,660,000,000	3,125,000,000
2001	1,450,000,000	3,340,000,000
2002	1,650,000,000	3,565,000,000
SUBTOTALS	\$7,490,000,000	\$16,440,000,000
<b>TOTAL</b>	<b>\$23,930,000,000</b>	

Table 21. Estimated Reductions in Federal SSI Payments Under Selected Provisions of PL 104-193, Fiscal Years 1997-2002  
After: Social Security Administration, Office of the Chief Actuary, September 1996

Amendments to the PRWORA, introduced by both the Clinton administration and Congress, were included as part of the Balanced Budget Act proposals of 1997. The historic bipartisan balanced budget agreement that resulted from a flurry of Congressional activity included the restoration of benefits for many of the hardest hit previous recipients of SSI disability benefits, namely, children and noncitizens. H.R. 2015 was signed by President Clinton, and became the Balanced Budget Act (BBA) of 1997 (PL 105-33) on August 5, 1997.

#### 1. Effects Upon Children

First, the BBA extended the deadline for redetermination of SSI child disability claims from August 22, 1997, to February 22, 1998.

Second, for children losing SSI benefits as a result of the PRWORA, the BBA allowed for the "grandfathering" of Medicaid eligibility. In most states, children who were eligible for SSI prior to 1996 were also automatically eligible for Medicaid. The BBA "conferred Medicaid eligibility for children who were receiving SSI on August 22, 1996 and who effective July 1, 1997 (or later) lose SSI because of a disability determination under the rules enacted by the 1996 welfare reform" (Social Security Administration, Office of Policy: Policy Evaluation of the Effects of the 1996 Welfare Reform Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings, 2000).

## **2. Effects Upon Noncitizens**

Under the terms of the BBA, "qualified alien" noncitizens who were residing in the United States and receiving SSI on August 22, 1996 would remain eligible for SSI. In addition, qualified alien noncitizens legally residing in the United States but not receiving SSI benefits on August 22, 1996 would be eligible for SSI benefits if they become disabled or blind, regardless of when. However, this group of individuals would not qualify solely on the basis of age.

Immigrants legally entering the United States after August 22, 1996 remain ineligible for SSI benefits unless they meet one of the exemptions listed in the PRWORA (e.g., refugees, asylees, active duty military, etc.).

The period for noncitizen SSI redetermination was extended from September 30, 1997 to September 30, 1998. Also extended was the period for refugee and asylee eligibility from five years to seven years.

And finally, Cuban and Haitian entrants to the United States are treated like refugees for purposes of applying for SSI during the period of eligibility immediately following entry.

### 3. Program Increase Estimations

Provisions included in the BBA were expected to result in annual increases in SSI program participation. The estimated average number of annual increases in federal child and noncitizen SSI recipients in payment status for FY 1997-2007 is displayed in Table 22.

<u>Fiscal Year</u>	<u>Provision</u>	
	<u>Redetermination of Childhood Disability</u>	<u>Reestablish Noncitizen Eligibility</u>
1997	Negligible	57,000
1998	Negligible	420,000
1999	Negligible	389,000
2000	Negligible	389,000
2001	Negligible	377,000
2002	Negligible	366,000
2003	Negligible	355,000
2004	Negligible	348,000
2005	Negligible	340,000
2006	Negligible	328,000
2007	Negligible	316,000

Table 22. Estimated Increases in Average Number of Federal SSI Recipients in Payment Status Under Selected Provisions of PL 105-33, Fiscal Years 1997-2007  
After: Social Security Administration, Office of the Chief Actuary, September 1997

The estimated amount of annual increases in federal child and noncitizen SSI payments for FY 1998-2007 is displayed in Table 23.

<b>Fiscal Year</b>	<b>Provision</b>	
	<b>Redetermination of Childhood Disability</b>	<b>Reestablish Noncitizen Eligibility</b>
1998	Negligible	\$2,220,000,000
1999	Negligible	2,149,000,000
2000	Negligible	2,216,000,000
2001	Negligible	2,214,000,000
2002	Negligible	2,215,000,000
2003	Negligible	2,219,000,000
2004	Negligible	2,239,000,000
2005	Negligible	2,430,000,000
2006	Negligible	2,239,000,000
2007	Negligible	2,050,000,000
<b>TOTAL</b>	<b>Negligible</b>	<b>\$22,192,000,000</b>

Table 23. Estimated Increases in Federal SSI Payments Under Selected Provisions of PL 105-33, Fiscal Years 1998-2007  
After: Social Security Administration, Office of the Chief Actuary, September 1997

### C. EFFECTS UPON THE FEDERAL BUDGET

Shown in Table 24 are the annual amounts of federal SSI payments, by category, for the years 1974-1999. The passage of the PRWORA in 1996, and the subsequent reestablishment of essentially all benefits by the BBA in 1997, has had relatively little impact upon the federal budget. Total annual federal SSI payments increased approximately \$193 million from 1996 to 1997, and \$950 million from 1997 to 1998.

Annual Amount of Federal SSI Payments by Category, 1974-1999 (in thousands)				
<u>Year</u>	<u>Total</u>	<u>Aged</u>	<u>Blind</u>	<u>Disabled</u>
1974	\$3,833,161	\$1,782,742	\$91,308	\$1,959,112
1975	4,313,538	1,842,980	92,427	2,378,131
1980	5,866,354	1,860,194	131,506	3,874,655
1985	8,777,341	2,202,557	195,183	6,379,601
1990	12,893,805	2,521,382	238,415	10,134,007
1991	14,764,795	2,691,681	254,140	11,818,974
1992	18,246,934	2,901,063	275,606	15,070,265
1993	20,721,613	3,097,616	287,754	17,336,243
1994	22,175,233	3,265,711	292,102	18,617,421
1995	23,919,430	3,374,772	298,238	20,246,415
1996	25,264,878	3,449,407	298,897	21,516,579
1997	25,457,387	3,479,948	302,656	21,685,421
1998	26,404,793	3,327,856	291,050	22,785,879
1999	26,805,156	3,524,355	309,295	22,971,506

Table 24. Total Annual Amounts of Federal SSI Payments by Category, in  
Thousands, For The Years 1974-1999  
After: Social Security Administration, Office of the Chief Actuary, 2000

Table 25 provides a chronological history of the significant SSI program changes between the years 1972 and 1997, as discussed above.

<b>Chronology of Significant Events Affecting Supplemental Security Income, 1972-1997</b>	
<b><u>Year</u></b>	<b><u>Event</u></b>
1972	Supplemental Security Income (SSI) Program (PL 92-603) established October 30, 1972.
1980	Social Security Disability Amendments of 1980 (PL 96-265) provided for deeming of sponsor's income to noncitizens.
1985	U.S. Court of Appeals, Second Circuit, <i>Berger v. Heckler</i> , 771 F.2d 1556 (2d Cir. 1985) broadened definition of Permanently Residing Under Color of Law (PRUCOL).
1990	Social Security Administration (SSA) increased the number of childhood impairments in the "Listing of Impairments," under the Social Security Disability Benefits Reform Act (DBRA) of 1984 (PL 98-460).
1991	U.S. Supreme Court, in <i>Sullivan v. Zebley</i> , 493 U. S. 521 (1990) led to redefining "comparable severity" for childhood impairments; established requirement for Social Security Administration (SSA) to perform Individualized Functional Assessment (IFA).
1996	Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 (PL 104-193) severely restricted Supplemental Security Income (SSI) eligibility for children and noncitizens.
1997	Balanced Budget Act (BBA) of 1997 (PL 105-33) reestablished Supplemental Security Income (SSI) eligibility for children and noncitizens.

Table 25. Chronology of Significant Events Affecting Supplemental Security Income, 1972-1997

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## **VIII. SUMMARY AND CONCLUSION**

To understand the origin and evolution of the Supplemental Security Income (SSI) program, this thesis began with a review of its underlying foundation, Social Security. The first half of this thesis focused upon the development and implementation of social insurance in the United States during the first part of the 20<sup>th</sup> century. SSI was the focus of the latter half of this thesis.

This final chapter is divided into three segments: a summary of the first seven chapters; a review of the author's findings with emphasis on the SSI program; a conclusion that will include suggestions for further research.

### **A. THE THESIS IN SUMMARY**

Briefly summarizing the preceding seven chapters will reacquaint the reader with the development of and interrelationship between two very important parts of mandatory spending in the federal government, Social Security and SSI.

#### **1. Chapter I: Introduction**

Chapter I presented the objectives, scope, and organization for this thesis. Entitlements and mandatory spending (excluding net interest), which comprised approximately 54.8 percent of total government spending in fiscal year (FY) 1999, includes both non-means tested and means tested public income security programs. Social Security (approximately \$387.0 billion) and SSI (approximately \$26.8 billion) together represented more than 42.3 percent of this spending category in that year (Congressional Budget Office, 2000).

In order to accurately pursue the study of the major policy and budgetary changes to the SSI program that have taken place since its inception in 1972, an understanding of social insurance and Social Security, specifically, was necessary.

## **2. Chapter II: Social Insurance**

Chapter II familiarized the reader with the concept of social insurance and its introduction into the United States during the late 19<sup>th</sup> and early 20<sup>th</sup> centuries. Although success of a social insurance movement in Germany and the establishment of a railroad workers' pension plan in the United States were known, interest in social insurance on the part of the federal government was not sparked until the early 1930s. By then, the effects of the Great Depression had paralyzed the nation in its ferocious grip.

As a means to end this financial despair and create a program to protect workers from poverty, President Roosevelt issued Executive Order No. 6757 in June 1934, establishing the Committee on Economic Security (CES) and the Advisory Council on Economic Security. As a result, a federal program to provide for the general welfare of the nation's population was created, later enacted as the Social Security Act of 1935.

## **3. Chapter III: Old-Age and Survivors Insurance**

Chapter III provided a detailed account of the process used to determine eligibility for Social Security (retirement) benefits. Retired workers were the only eligible beneficiaries under the original Social Security Act provisions; coverage for spouses and surviving dependents of insured workers was added by the 1939 Social Security amendments.

Workers born in 1937 and prior are entitled to full benefits once attaining the age of 65. This age of eligibility increases uniformly until it reaches age 67 for those born in 1960 and later. By gradually increasing the age of eligibility for full retirement benefits, the federal government hoped to lessen the surge in the number of beneficiaries that will result from the mass of baby-boom generation workers scheduled to begin retiring in 2008. Another intended outcome of raising the age of eligibility for full benefits is to increase the number of baby-boom generation workers remaining in the workforce longer, which in turn results in increased payroll tax revenues for the Social Security program.

Workers may opt to retire as early as age 62, or can delay their retirement until the age of 69. Those who choose to retire early receive a reduced lifetime benefit, while those choosing to prolong retirement will receive an increased lifetime benefit.

#### **4. Chapter IV: Social Security Disability Insurance**

Chapter IV described in detail the many attempts to include within Social Security benefits for workers who became disabled during their working years. Although not included in the original Social Security legislation of 1935, the concern over lost wages caused by disability existed.

President Eisenhower eventually signed disability insurance into law in 1956. This new program mandated the payment of benefits to disabled workers and their dependents. To qualify for disability benefits, a worker must be incapable of performing "substantial gainful activity." As in the case of old-age and survivors insurance benefits,

a worker must have earned the required number of credits to be eligible for a disability benefit.

## **5. Chapter V: Funding Social Security**

Financial resources necessary to pay for the expanding Social Security program (Old Age, Survivors and Disability Insurance - OASDI) are provided through a payroll tax, called the Federal Insurance Contributions Act (FICA) tax. This tax is borne equally between employee and employer. Self-employed persons are responsible for paying the entire payroll tax, as defined in the Self-Employed Contributions Act (SECA) legislation. FICA and SECA tax rates are periodically adjusted to keep pace with real wage growth.

Chapter V explained the concept of "pay-as-you-go" financing, which simply means that receipts from today's FICA and SECA payroll taxes are used to pay today's OASDI benefits. FICA and SECA tax receipts not needed for current OASDI benefits are invested in interest bearing, non-marketable, federal government securities, and represent the OASI and DI trust funds.

It has been necessary to occasionally adjust the FICA tax rate in order to keep the OASDI trust fund solvent. For example, legislation was enacted in 1994 raising the employee and employer DI portion of the OASDI tax rate from 0.6 percentage points for the period 1990-1993, to 0.94 percentage points for the period 1994-1996 (see Table 13, above). This rate increase was enacted by Congress to prevent the DI trust fund from experiencing a deficit in 1995 (Social Security Administration, Reports and Studies: 1995 OASDI Trustees Report, 1995). Simultaneously, the OASI portion decreased from 5.6 percentage points to 5.26 percentage points during that period.

## **6. Chapter VI: Supplemental Security Income**

Assistance to needy citizens of the United States who were aged, dependent and crippled children, or blind, was originally provided by Titles I, V and X of the Social Security Act of 1935. Benefits were made possible by federal grants from the general funds account to the states, with each state responsible for their administration.

Due to large inconsistencies among states regarding eligibility criteria, financial capacity, and willingness to provide administrative support, Congress passed Public Law (PL) 92-603 in 1972. This law federalized SSI, establishing uniform benefits administered by the Social Security Administration (SSA) and standardizing eligibility requirements nationwide. In its federalized form, SSI replaced the categorical state administered programs created by the Social Security Act of 1935 that had been financed through federal grants.

Beginning in 1974 monthly federal SSI payments and program administrative costs are paid out of the OASI and DI trust fund accounts. These trust funds are then subsequently reimbursed for such expenditures from the General Fund of the Treasury (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000).

In 2000, the monthly federal SSI benefit amounted to \$512 for an eligible individual, and \$769 for an eligible individual with an eligible spouse. States have the option to supplement this federal benefit with state funds, as deemed necessary. For instance, a state may choose to supplement the federal benefit for SSI recipients living in areas with a high cost-of-living.

Chapter VI also discussed in detail the eligibility requirements, benefit structure and sources of funding for the SSI program. During the 1990s, this program experienced a beneficiary growth rate of approximately 50 percent (Social Security Administration, Office of Policy, 2000). The SSA has estimated that by the year 2024 the number of federal SSI recipients will have grown further to approximately 7.7 million individuals (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000, Chapter II).

#### **7. Chapter VII: Supplemental Security Income and Welfare Reform**

Through the course of its history, the safety net of financial assistance provided by the SSI program had become increasingly costly. Twenty years after its inception in 1972, SSI had become one of the fastest growing entitlement programs in the federal budget; its costs grew from 1991 through 1994 at an annual rate of 20 percent (National Center for Policy Analysis, 1996). By 1994, more than six million SSI recipients received approximately \$22 billion in federal benefits and more than \$3 billion in supplemental state benefits (National Center for Policy Analysis, 1996).

As an attempt to control these escalating costs, Congress passed legislation in 1996 to modify the SSI program. The final product, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 (PL 104-193), was signed by President Clinton into law on August 22, 1996. This act had its most significant impact on the eligibility status of recipients in two specific categories of SSI beneficiaries; children under the age of 18, and foreign-born noncitizen recipients. The SSA estimated that by the year 2002 PRWORA would have reduced the average number of children

under the age of 18 in payment status by 250,000, and the number of foreign-born noncitizens in payment status by 585,000.

When he signed PRWORA into law, President Clinton indicated that he felt the new law was too restrictive and harsh towards noncitizen immigrants who were legally residing in the United States. Although he approved the bill, President Clinton vowed to continue to work with Congress to "right the wrongs" of welfare reform and restore benefits for legal immigrants. Congress answered this call by passing H.R. 2015, which President Clinton signed into law on August 5, 1997, as the Balanced Budget Act (BBA) of 1997 (PL 105-33). This act essentially reversed all of the changes to the SSI program that were established in the PRWORA. Controlling the growth of SSI was not accomplished.

## **B. REVIEW OF FINDINGS**

The goal of this thesis was to provide the reader with a better understanding of SSI, one of several means-tested entitlement programs in the federal budget. Now that both the Social Security and SSI programs have been explained, a review of the findings is in order.

### **1. Supplemental Security Income: Recipients and Costs**

This section describes how the numbers of recipients of SSI benefits and the amounts of federal SSI payments have changed in response to program modifications between the years 1974 and 1997.

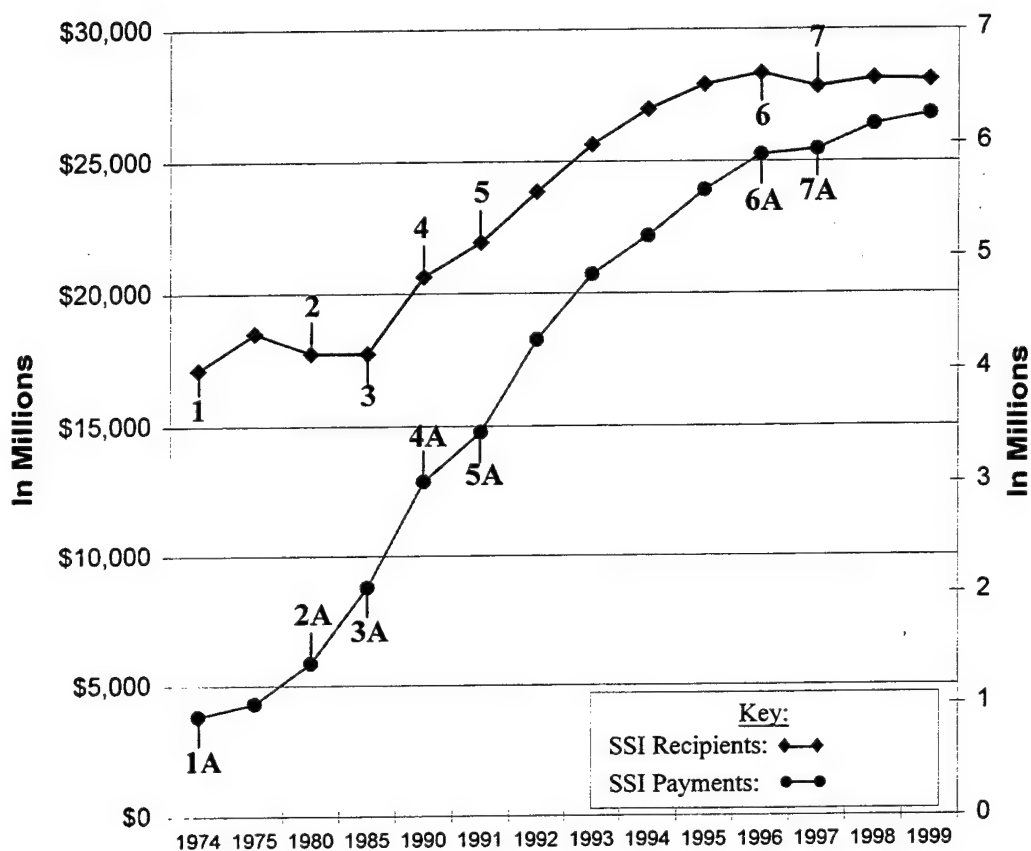
*a. 1980: Social Security Disability Amendments of 1980*

The first Congressional action to contain SSI growth took place in 1980. Concerns that the SSI program was being abused by noncitizens who had entered the United States with the sole intention of receiving public assistance had been raised shortly after the first benefit payments were made in 1974 (see points 1 and 1A, Figure 7). After much deliberation Congress passed, and President Carter signed into law on June 9, 1980, H.R. 3236, the Social Security Disability Amendments of 1980 (PL 96-265).

Included in this new law was a requirement holding sponsors legally accountable for the immigrants to whom they had pledged financial support. This process involved attributing, or deeming, the income and resources of a sponsor to a noncitizen for the period of three years for which the sponsor had promised support. If the sponsor's income and resources exceeded a specified threshold, then the noncitizen immigrant would be ineligible for SSI benefits. Deeming of sponsor's income applied to all noncitizen's applications for SSI benefits filed after September 30, 1980.

The limiting effect of this law can be seen in Figure 7; the total number of SSI recipients between 1980 (see point 2, Figure 7) and 1985 (see point 3, figure 7) remained relatively constant at approximately 4.1 million. Total federal SSI payments over this same period increased from approximately \$5.9 billion in 1980 (see point 2A, Figure 7) to \$8.8 billion in 1985 (see point 3A, Figure 7) (Social Security Administration, Office of Policy, 2000).

## Total SSI Recipients and Federal SSI Payments, 1974-1999



### Key Events:

1. 1974: First Supplemental Security Income Benefits Paid
2. 1980: Social Security Disability Amendments of 1980
3. 1985: *Berger v. Heckler*, 771 F.2d 1556 (2d Cir. 1985)
4. 1990: Modification of the "Listing of Impairments"
5. 1991: *Sullivan v. Zebley*, 493 U. S. 521 (1990)
6. 1996: Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA)
7. 1997: Balanced Budget Act (BBA)

Figure 7. Total SSI Recipients and Federal SSI Payments, 1974-1999

conditions were either not listed, or were a combination of impairments that together did not meet the definition of any single impairment in the Listing (Social Security Administration, Office of Policy: Policy Evaluation of the Effects of the 1996 Welfare Reform Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings, 2000). Once again, the SSA found itself issuing new regulations, this time explicitly redefining childhood "comparable severity."

A further correction the SSA made to its childhood impairment evaluation process, ensuing from the *Zebley* decision, was the requirement to perform an Individualized Functional Assessment (IFA). IFAs were mandatory in cases where a child's disability was determined not to be medically equivalent to a listed impairment. The IFA was conducted, then, to determine if the child's impairment(s) instead met the comparable severity standard mentioned above.

The new definitions and eligibility requirements of childhood disability went into effect February 1991. By increasing the number of qualifying impairments, redefining comparable severity, and employing the process of IFAs, SSA believed it would be better able to assess child SSI applicants. To further ensure that no qualified applicant was left without a benefit, all child SSI eligibility evaluations made between the years 1980 and 1991 were to be reevaluated using the new guidelines outlined in the modified SSA regulations (Social Security Administration, Office of Policy: Policy Evaluation of the Effects of the 1996 Welfare Reform Legislation on SSI Benefits for Disabled Children - Second Round Case Study Findings, 2000).

The combined effects of these SSA modifications to the definition and eligibility requirements of childhood disability on child SSI program participation, together with the redefinitions of noncitizen SSI eligibility from previous years, played a dramatic role in the unprecedented growth of the SSI program over the next five years. The total number of SSI recipients in 1991 was approximately 5.1 million (see point 5, Figure 7). By 1996, this number had increased to more than 6.6 million (see point 6, Figure 7), representing an increase in beneficiaries greater than 29 percent. Total federal payments increased from \$14.8 billion in 1991 (see point 5A, Figure 7) to \$25.3 billion in 1996 (see point 6A, Figure 7). In just five years the cost of the SSI program grew approximately 70 percent (Social Security Administration, Office of Policy, 2000).

*e. 1996: Personal Responsibility and Work Opportunity  
Reconciliation Act*

When President Clinton first took office in January 1993, he promised to “end welfare as we know it” (Kennedy, Parrott and Scott, 1998, pg. 6). Two years later when the 104<sup>th</sup> Congress convened on January 4, 1995, with the first Republican majority in both chambers of Congress in forty years, welfare reform became an open, heated debate on Capitol Hill. It appeared that both the executive and legislative branches of the government were determined to combine efforts to slow the growth of several of the nation’s mandatory spending programs.

Between May and July of 1996, the House and the Senate introduced several bills regarding welfare reform. Following deliberations and markups of these bills, a report emerged from the conference committee on July 30, 1996, as H.R. 3734,

the Welfare Reform Reconciliation Act of 1996. This bill was accepted by the administration and signed into law on August 22, 1996, as the PRWORA.

Although it contained provisions for redetermining child SSI eligibility, the PRWORA was largely directed towards restricting SSI eligibility for noncitizens. Once enacted, the PRWORA immediately set to work, reducing the total number of SSI recipients in 1996 from 6.6 million (see point 6, Figure 7) to just under 6.5 million in 1997 (see point 7, Figure 7). Total federal SSI payments, however, increased during the year, but by a relatively *insignificant* amount; from \$25.3 billion (see point 6A, Figure 7) to \$25.5 billion (see point 7A, Figure 7) (Social Security Administration, Office of Policy, 2000).

*f. 1997: Balanced Budget Act*

Similar to past attempts to limit the growth of the SSI program, the potential for containment offered by the PRWORA was quickly curtailed. Enactment of the BBA on August 5, 1997 fundamentally reversed all of the changes included in the PRWORA relating to SSI.

Shortly thereafter, SSI resumed its old but familiar pattern of growth. SSI recipients increased from just under 6.5 million in 1997 to 6.6 million in 1999. Federal SSI payments followed suit, increasing from approximately \$25.5 billion in 1997 to \$26.8 billion in 1999 (Social Security Administration, Office of Policy, 2000).

A closer look at Figure 7 reveals a striking similarity in the slope of the growth curves of SSI beneficiaries and federal SSI payments. It appears that an increase in the number of beneficiaries has a nearly proportional increase in program costs, hinting

that the cost per SSI beneficiary has remained *relatively* constant over the life of the program. In other words, a movement in the beneficiaries curve caused a movement in the cost curve, as expected. The two curves move approximately at the same times and approximately in the same directions.

There is one noticeable exception to this observation. During the period 1980 to 1985 (see points 2 and 3, Figure 7), the total number of SSI beneficiaries remained level at approximately 4.1 million. Total federal SSI payments, however, increased dramatically from \$5.9 billion in 1980 (see point 2A, Figure 7) to \$8.8 billion in 1985 (see point 3A, Figure 7), an increase of approximately 50 percent.

## **2. The Federal Budget, Social Security, and Supplemental Security Income**

As described above, the SSI program experienced rapid growth through the course of its history. This section examines SSI's role in the federal budget, and how SSI compares relative to Social Security.

### ***a. The Federal Budget***

The federal government spends tax revenues that it collects on three categories of goods and services. These categories are discretionary spending, mandatory (entitlement) spending, and interest on the national debt.

Discretionary spending refers to funds that are provided each year by Congress through the appropriations process, and are, therefore, considered to be "controllable." Some (but not all) of the items that are purchased through discretionary spending include expenditures for national security (defense), public housing, education, the space program, and upkeep of national parks, bridges and highways (non-defense).

(Although some discretionary dollars are used to pay for entitlements, explaining that process is beyond the scope of this discussion).

Mandatory spending refers to funds that are not controlled by an annual decision of Congress, but are automatically obligated, or spent, by virtue of previously enacted laws. Some (but not all) of the entitlements that make up the category of mandatory spending include Social Security, Medicare, Medicaid, SSI, Food Stamps and the Earned Income Tax Credit (EITC).

The final category contains interest payments on the national debt. These interest payments are required (mandatory), and consume a considerable portion of annual tax revenues. The total interest expense for FY 2000 (at year end) was \$361.9 billion (Bureau of the Public Debt, 2000).

Figure 8 depicts the shifting proportion between the different categories of federal budget outlays for selected fiscal years. In FY 1962, discretionary spending, both for defense and non-defense, constituted approximately two-thirds (68 percent) of the federal budget, with mandatory spending and interest on the national debt representing approximately one-third (32 percent). Thirty-five years later, in FY 1997, the proportions were nearly reversed. Mandatory spending and interest payments equated to approximately two-thirds (66 percent) of the federal budget, with all discretionary spending being reduced to approximately one-third (34 percent). This trend continued through 2001. As a share of total spending, mandatory programs increased *123 percent* between FY 1962 (26 percent) and FY 2001 (58 percent) (U.S. House of Representatives Committee on Appropriations, "Discretionary Spending and the Federal Budget," 2000).

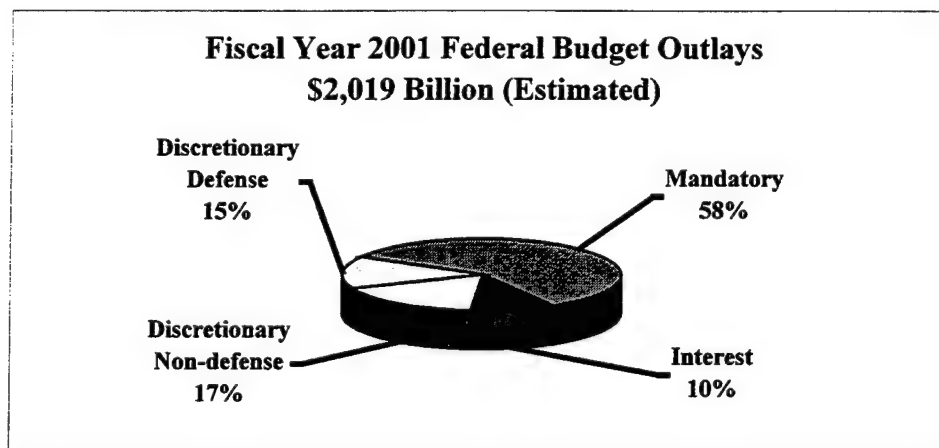
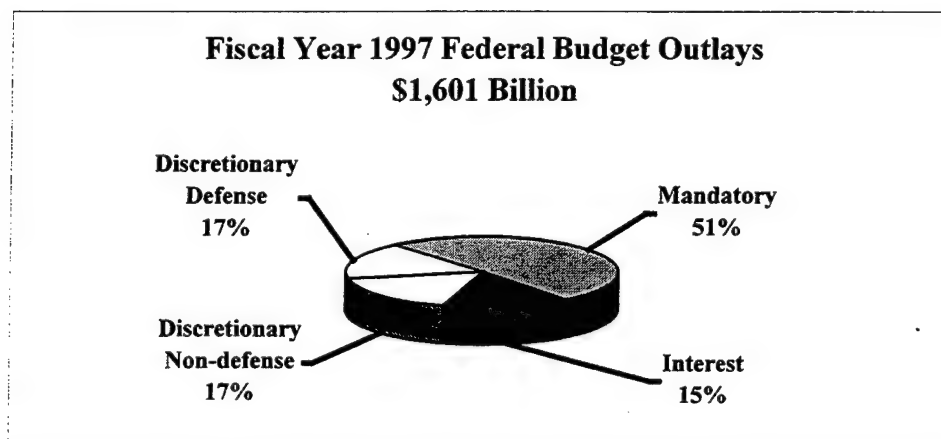
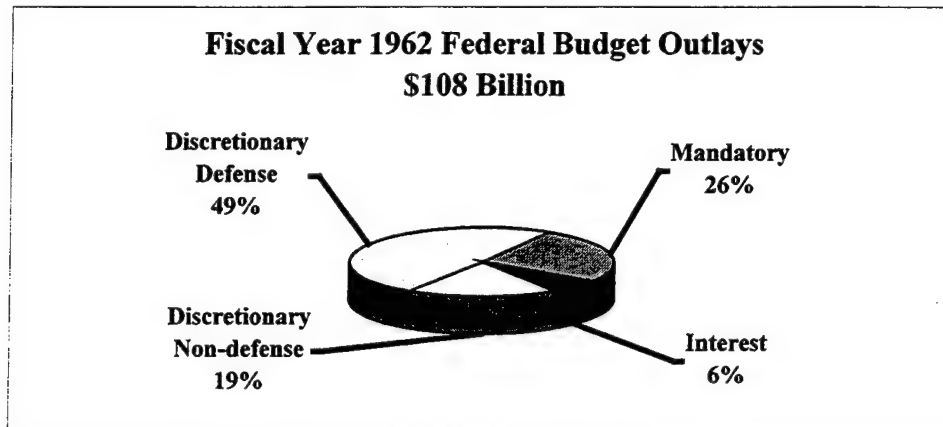


Figure 8. Federal Budget Outlays, Selected Fiscal Years  
After: U.S. House of Representatives, 2000

***b. Mandatory Spending: Social Security and Supplemental Security Income***

Within the category of mandatory spending are non-means tested and means tested programs. Unlike means-tested entitlement programs, non-means tested programs do not require individuals to document their need on the basis of income or assets.

Dominating the non-means-tested category are Social Security, Medicare, and other retirement and disability programs. By far the largest, Social Security will grow from an expected \$430 billion in benefit payments in 2001 to an estimated \$719 billion in 2011, a growth rate of approximately 5.3 percent per year.

Following close behind, Medicare will more than double over the same period from an expected \$238 billion in benefit payments to an estimated \$492 billion. In FY 2000, these two programs combined consumed more than one out of every three federal dollars spent; in 1980, these two programs consumed only one in four federal dollars (Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2002-2011," 2001).

Means-tested programs include Medicaid, Food Stamps, and SSI. These programs do, in contrast, require that recipients demonstrate their need on the basis of income or assets.

Since the 1960s, spending on means-tested benefits has more than tripled as a share of the economy--from 0.8 percent of GDP in 1962 to a high of 2.6 percent in 1995. Since 1995, means-tested outlays have declined slightly as a share of GDP, slipping to 2.4 percent in 2000; however, that trend is not expected to continue. Changes in spending for these programs are driven by several factors, including inflation, rising health care costs, fluctuating unemployment, growth of the eligible

populations, and new legislation. Largely because of Medicaid growth, CBO projects that spending for means-tested programs will grow more rapidly than the economy, climbing to 2.8 percent of GDP by 2011 (Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2002-2011," 2001, pg. 81).

Table 26 displays the percentage of total annual federal spending represented by Social Security and SSI. For the period FY 1990 to FY 1999, Social Security's share of total spending experienced moderate growth. Consuming 18.79 percent of every federal dollar spent in FY 1990, Social Security consumed 21.72 percent in FY 1999, an increase of approximately 15.6 percent.

During the same period, however, SSI ballooned from a 0.98 percent share of total spending in FY 1990, to a 1.50 percent share in FY 1999. This represents a growth rate of approximately 53 percent for the SSI program, more than triple the rate of Social Security (Congressional Budget Office, "Data Highlights: Historical Budget Data," 2000).

When compared to entitlements and other mandatory spending, displayed in Table 27, it can be seen that Social Security changed very little during the period FY 1990 to FY 1999, hovering at around 40 percent.

On the other hand, SSI grew at a rapid pace. Between the years FY 1990 and FY 1999, SSI increased a substantial 33 percent. However, it can be seen in Table 27 that during the years leading up to the enactment of the PRWORA in 1996 SSI had been growing far more robustly. For instance, considering only the period FY 1990 to FY 1996, SSI grew from 2.06 percent of entitlements and other mandatory spending to 2.95 percent, a rate of growth of approximately 43.2 percent (Congressional Budget Office,

“Data Highlights: Historical Budget Data,” 2000). Had President Clinton vetoed the PRWORA, SSI’s share of entitlements and other mandatory spending over the decade of the 1990s might very well have grown much faster than 33 percent.

	Federal Budget			Social Security		Supplemental Security Income	
<u>Year</u>	<u>Total Federal Spending</u>	<u>Offsetting Receipts</u>	<u>Total Federal Outlays</u>	<u>Benefits</u>	<u>Percent of Total Spending</u>	<u>Benefits</u>	<u>Percent of Total Spending</u>
1974	\$290.60	(\$21.20)	\$269.4	\$55.0	18.93%	\$3.80	1.32%
1975	350.60	(18.30)	332.30	63.6	18.14	4.30	1.23
1980	620.10	(29.20)	590.90	117.1	18.88	5.90	0.95
1985	993.50	(47.10)	946.40	186.4	18.76	8.80	0.88
1990	1,311.90	(58.70)	1,253.20	246.5	18.79	12.90	0.98
1991	1,430.10	(105.70)	1,324.40	266.8	18.66	14.80	1.03
1992	1,450.10	(68.40)	1,381.70	285.2	19.67	18.20	1.26
1993	1,476.10	(66.60)	1,409.50	302.0	20.46	20.70	1.40
1994	1,530.40	(68.50)	1,461.90	316.9	20.71	22.20	1.45
1995	1,595.50	(79.70)	1,515.80	333.3	20.89	23.90	1.50
1996	1,632.50	(71.90)	1,560.60	347.1	21.26	25.30	1.55
1997	1,689.30	(88.00)	1,601.30	362.3	21.45	25.50	1.51
1998	1,734.50	(81.90)	1,652.60	376.1	21.68	26.40	1.52
1999	1,781.40	(78.40)	1,703.00	387.0	21.72	26.80	1.50

Table 26. Social Security and Supplemental Security Income as a Percentage of Total Federal Spending, Fiscal Years 1974-1999  
 After: Congressional Budget Office, January 2000  
 Note: Dollars are in Billions.

	<b>Federal Budget</b>	<b>Social Security</b>		<b>Supplemental Security Income</b>	
<b>Year</b>	<b>Entitlements and Other Mandatory Spending</b>	<b>Benefits</b>	<b>Percent</b>	<b>Benefits</b>	<b>Percent</b>
1974	\$130.9	\$55.00	42.02%	\$3.80	2.93%
1975	169.50	63.60	37.52	4.30	2.54
1980	291.40	117.10	40.19	5.90	2.01
1985	448.30	186.40	41.58	8.80	1.96
1990	627.00	246.50	39.31	12.90	2.06
1991	702.30	266.80	37.99	14.80	2.10
1992	716.10	285.20	39.83	18.20	2.55
1993	736.50	302.00	41.00	20.70	2.81
1994	783.60	316.90	40.44	22.20	2.83
1995	817.70	333.30	40.76	23.90	2.93
1996	856.90	347.10	40.51	25.30	2.95
1997	896.30	362.30	40.42	25.50	2.84
1998	938.60	376.10	40.07	26.40	2.81
1999	976.80	387.00	39.62	26.80	2.74

Table 27. Social Security and Supplemental Security Income as a Percentage of Entitlements and Other Mandatory Spending, Fiscal Years 1974-1999  
After: Congressional Budget Office, January 2000  
Note: Dollars are in Billions.

## C. CONCLUSION

### 1. Disproving Some Misperceptions

The primary misperceptions encountered during my examination of the SSI program were that the program represented an integral part of the SSA, and more specifically, the Social Security program. Once research began, however, two things

quickly became apparent. First, the SSA has played the part, albeit an important part, of program administrator only since the time that SSI was federalized in 1972 under PL 92-603. Second, SSI more closely resembles public assistance (i.e., welfare) than the retirement-type income provided by the Social Security program, a program funded by employer and employee contributions.

SSI's relationship to Social Security begins, and abruptly ends, with the Social Security Act of 1935. That Act included provisions for grants-in-aid to the states as financial assistance to its resident aged persons, dependent and crippled children, and blind persons. The responsibility of administering this assistance rested solely with the state; resources were made available by federal grants from the general funds account. Although the funds for this public assistance program are still ultimately provided out of the general funds account, SSA has assumed responsibility for the administration of benefits and the determination of eligibility requirements.

## **2. A Bump in the Road Called Welfare Reform**

As illustrated above, the PRWORA looked promising as a means to slow the rate of growth of the SSI program. Immediately after its enactment in August 1996, the PRWORA produced a noticeable decrease in total SSI recipients.

However, this impact was short lived, effectively reversed by the BBA of 1997. By 2024, the federal SSI recipient population is estimated to reach 7.7 million. Expressed as a percentage of the total United States population, "the number of Federal SSI recipients is projected to remain fairly level at roughly 2.2 to 2.3 percent of the

population through 2024" (Social Security Administration, Office of the Chief Actuary: 2000 SSI Annual Report, 2000, Chapter II).

Barring near-term policy changes regarding mandatory spending, of which SSI is a part, the Congressional Budget Office (CBO) estimates that mandatory spending will grow faster than any other spending category in the federal budget. The CBO forecasts that mandatory spending levels will reach between 62 percent and 65 percent of federal spending by 2004, approximately twice the size of discretionary expenditures. "By 2010, mandatory spending will take up between 71 percent and 78 percent of total outlays" (Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2001-2010," 2000, pg. 81).

### **3. Suggestions for Further Research**

One area for further research of the SSI program that may prove useful would entail a comparison of the relationship of SSI with the myriad of other means tested public assistance programs within the federal budget. This research was restricted to an in depth examination of SSI alone.

Another suggestion for further research of the SSI program concerns the evident divergence of the SSI recipient and federal SSI payment curves for the period 1980 to 1985, as illustrated above.

And finally, a comprehensive analysis of Social Security reforms implemented by foreign governments in recent years may perhaps prove useful. Such an analysis might lead to valuable recommendations for reform of Social Security in the United States.

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